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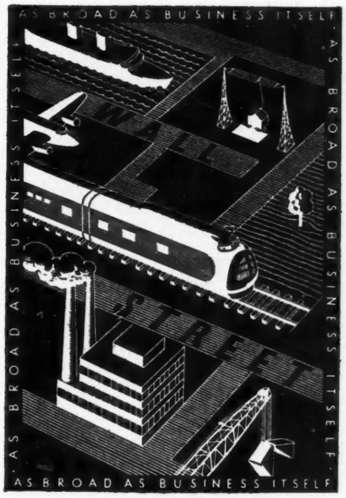
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* Laurence Stern, *Managing Editor*



The Trend of Events

DOOM OF THE AXIS . . . The decisive factor in this war is the vast production of American industry. Both the output of war equipment attained and the speed of its realization have been incredible. The result has dumfounded the Axis—and amazed us. We did not realize our true strength until it was demonstrated in the show-down test of war. Ironically, it was industrially puny Japan that pushed the switch, in the attack on Pearl Harbor, which galvanized this enormous potentiality into fast reality.

On Memorial Day the 100,000th airplane was made. . . . In the first five months of this year one fighting ship was completed every 36 hours. . . . . The Navy will have doubled in strength by the end of this year. . . . We made more pieces of artillery for ground troops in May than in all the nineteen months of our effort in the last war. . . . We turned out 1,500,000 machine guns since June 1, 1942, and 2,225,000 since America began to arm. . . . We are building merchant ships four times faster than they are being sunk.

These impressive figures were revealed in a recent public address by James F. Byrnes, Director of War Mobilization. Our war production, now not far from its peak, is a veritable flood. More important, an overwhelming proportion of ocean shipments are now reaching their destinations. Not only are fewer ships being sunk, far more enemy submarines are being destroyed.

In short, we have won the Battle of Production and the Battle of the Atlantic. The rest is a foregone conclusion. Success builds on success. The gathering momentum of the forward march of the United Nations may have surprising results—victory over Germany earlier than we could dream of even at the start of this year.

We are not without troubles on the Home Front. Though they demand attention, let us not lose perspective. They loom less important when eyed against the magnificent results achieved in the overall war effort.

AMERICAN "BEVERIDGE PLAN" . . . The American version of the Beveridge Plan introduced by Senator Wagner and Representative Dingell has put forward its grandiose proposal for total insurance under the banner of "sound finance." The scheme provides for illness, hospitalization and unemployment insurance, as well as provision against accidents. It embraces old-age pensions and allows for an overall employment exchange system. It would include 15 million persons now excluded from Social Security features. It is more liberal and all-embracing than the present security set-up. It provides a long-term unemployment benefit for soldiers, upon their return, up to $30 per week. It is designed to eliminate war pensions by providing alternative security. It would also eliminate any demand for bonuses to veterans, since security would otherwise be achieved.

It declines to burden the Treasury, by providing

that for ten or fifteen years, the Government shall contribute nothing to its operation, until the load of war finance will have been eased. The fund is to be assessed equally between employer and employee, and thus the additional cost will be borne by 2.5 billions out of corporate surplus (and savings of unincorporated employers) and 2.5 billions out of current wages, thus diminishing the inflation potential. Senator Wagner insists that this is more orthodox finance than even war bond subscriptions since the insurance payments can never be redeemed except in specific benefits, and not by sale or loan as is the case with any other type of savings.

By adding 5 billions per annum to an already unwieldy sum of Social Security funds, Senator Wagner would add 2.5 billions to production costs and abstract 2.5 billions from savings made out of wages. He diverts these savings from banks and insurance companies, who place them into industry, and thus he reduces the production potential of the country. By burdening industry with an additional 2.5 billions per annum, he further discourages reinvestment in capital expansion.

In other words, he would take 5 billions away from that capital provision, which is the source of augmented production. These insurance sums are to be put at the disposal of government, which, unless benefits paid out exceed revenues received, will probably put these receipts into public works, which are scarcely and only contingently a source of new capital. This omits consideration of the fact that psychologically the plan transfers prevision from the naturally foresighted people to those who show no such survival traits, and hence diminishes the spurs to production.

Sir William Beveridge rightly stated that production precedes benefits, and that his scheme is mere rhetoric without antecedent gains in material wealth. Senator Wagner's humanitarianism has exceeded his economic wisdom. The scheme calls for material revisions, safeguarding future production.

FUTURE OF THE STOCK EXCHANGE . . . The President of the New York Stock Exchange has expressed his belief that it may see a great expansion in the number of stocks and bonds listed, since he envisages the possibility that securities from all over the world will seek a market in New York. The diamond and gold fields of South Africa, Australian opals, Burmese tins, Chinese tungstens, Mid-Eastern oils, Brazilian rails, may become the commonplaces of investment as U. S. Steel and General Motors are today. Prior to such listing he wisely foresees that our investment bankers must take some active part in the financing and management of these resources.

The logic of his position seems unescapable. The surplus capital of the United States, whether expressed as plant capacity or as liquid resources, is unmatched. This country has at last reproduced all the conditions under which Britain, Holland and France were led into the international sphere of investment. The direct interest of the United States abroad (excluding bonds) scarcely exceeds seven billions, and excluding Canada, barely five billions. Proportionate to our national resources, this is trifling and proportionate to our actual needs, might even prove perilous.

It is impossible to conceive of an international air and food policy, an international currency policy, and above all, international investment participation, such as are now shaping, without the correlative of a great increase and geographical diffusion of New York Stock Exchange listings. Should this prove true, the Stock Exchange, will look back to its former high points of activity as merely those of a provincial financial center, and at last enter upon its proper destiny.

To convert the New York Stock Exchange List into a miniature telephone book, as is the case in London, will also sharpen the analysis of securities experts, since variations of currencies, laws, and popular customs will have to be reckoned with instead of the comparatively uniform situation at home.

THE FOOD CONFERENCE . . . The International Food Conference, whose deliberations were kept so secret, has turned out a vague document, principally recommending further discussions and studies. Of immediate, concrete action on war food supplies, there appears (on the record at least) to have been no action taken. But this superficial appearance is not the lesson of the conference. Actually it was agreed that agriculture, as a world phenomenon, must from now on be subject to international supervision, and that surpluses shall be surveyed by multi-national experts, and properly allocated.

There never has been a surplus, expressed in human needs. Our wheat surplus could always have been utilized somewhere. What we lacked were customers who could buy, and "buy" is not an inhuman consideration. For, if the American farmer could not be paid by our customers, then he had to be paid out of taxation wrested from other groups. His income is spent mainly for seed, machinery and his own nourishment and clothing.

The dilemma of our capital expansion has also affected the American farmer fundamentally. If we are to expand our exports of finished goods, the raw material producing countries must pay for it largely in food, and food is just that commodity of which we have the greatest abundance.

It is impossible for us to hope for an economic export of our food to Europe, unless the peace treaty stipulates the end of uneconomic food production in every country, which policy impoverishes mankind to safeguard national aims. There is no need to produce wheat in Italy when America and the Ukraine can provide her with both, in exchange for olive oil, fine vegetables, floral essences and exotic fruits. The food conference is simply attempting to do by proctocols what freedom of exchange of agricultural products would do naturally and with no research and no fuss.

Worldwide Struggle for Power

BY JOHN DANA

CERTAIN NAZI DOOM IS SHIFTING ALIGNMENTS

THE rising certainty of Germnay's defeat has realigned social forces in every country, whether belligerent, quasi-neutral or truly neutral. The Argentine revolution may be the most dramatic of these indications, but its significance is astonishingly similar to those which we witness in North Africa and even in the United States. General Rawson's successful *putsch* was animated by both conservatives and radicals. Strange bedfellows, hostile in their economic interests and ideologies, scarcely trusting each other, ready for strains and even vicious disagreements, are yet impelled to align the Argentine with the Allies rather than the Axis. Whatever the internal dilemmas of the Rawson group, their external direction, however hesitant, can point only one way—away from the Axis.

On the Rawson side one finds the British interests, so dominant in rails, utilities, beef export, in warehouses and department stores; the American colony, largely Boston-financed, and also strong in the packing and linseed groups; the large and wealthy Dutch and French grain concerns (among the most important anywhere); almost all merchants and manufacturers who detest the feudal magnates of the interior; also the whole of the intellectual class, which counts for so much in Latin countries; as well as the refugees who have poured their capital into new, light industry; the Brewery and Rayon trusts; and that section of the working class not of Italian origin.

On the other side were aligned the grand families, overlords of a million herdsmen and tenant farmers; the large Italian population, the economically weak but buzzfly German business fifth column, the agents of resurgent Franco *Falange* nationalism, all coherent with the German interest. With them were aligned the older Anti-American groups, crying down "Monroeism" and "Yankee imperialism", and mediaeval-minded people who still look to feudal Spain as the motherland, and to her Fifteenth Century as the acme of humanity. To these must be added the large groups indebted to British finance who would profit by repudiation.

Castillo, under the cloak of neutrality, tried to hold the Argentine friendly to the Axis. His group argued that the Argentine lives by exports. The Axis might win. They could not afford to antagonize a power that could nullify most of their exports and so undermine their economic life. There were some British interests which were not averse to this hedging policy, for their properties in this neutral land would at least afford them some income if Europe went "sour". In fact, some such policy must be assumed, given that the Argentine is far more a British colony than, say, Canada or New Zealand.

Yet the regrouping of forces, so long in balance, was compelled by the Tunisian defeat and the misfortunes of the Nazi armies on the Volga. The time for hedging was past. Immediately, the imperative need for fusion with the Allies produced this hodgepodge revolt of conservative and liberal overnight.

What touched it off (*Please turn to page* 271)

Street scene in Buenos Aires, Argentina

Market Action to Take Now

The bull performance has currently become somewhat more sluggish, but on balance the technical signs are still preponderantly on the favorable side. Pending developments of more convincing "toppy" evidence, we think the most sensible policy for those adequately committed is to "ride along."

BY A. T. MILLER

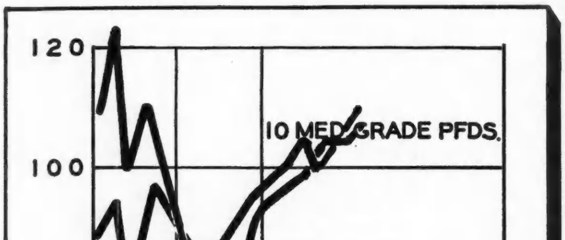
Summary of the Fortnight: The Dow industrial average advanced about three points, reflecting improved demand for a broad list of "prominent" stocks. However, on a percentage basis, our index of 100 low-price stocks continued to lead the market. On the latest market advance, total volume remained well under peaks reached when successive recovery highs were made in April and early May.

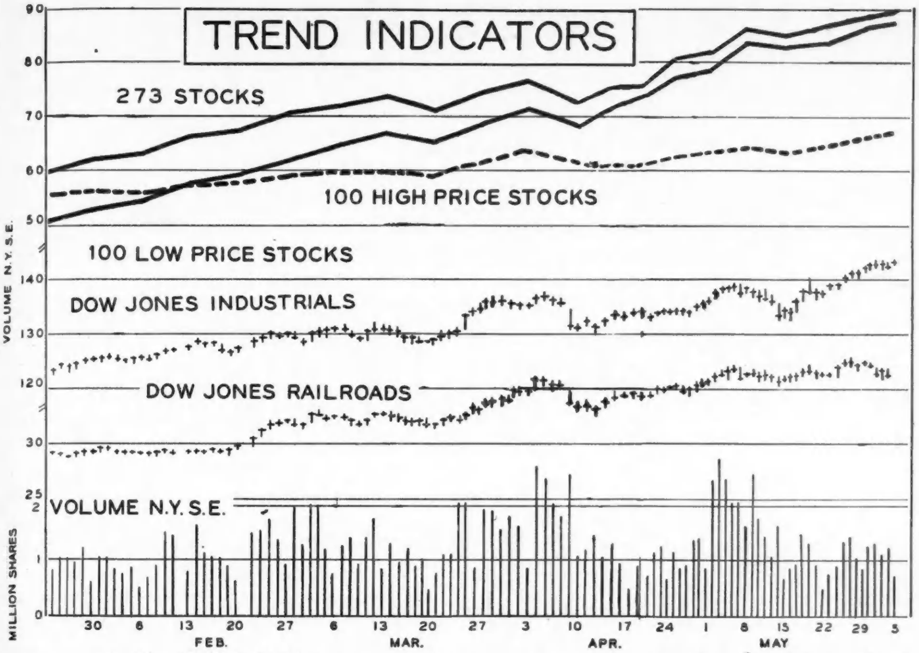
On a technical basis, the only note of caution being sounded by the market is that the total volume of transactions on the latest advancing phase has been considerably smaller than on the earlier rises this spring. This seems mainly due, however, to a considerable change for the better in the quality of bull leadership, and for that reason may be more hopeful than otherwise.

While the public's interest in low-price stocks is still pretty strong, the *relative* emphasis on such issues has decreased, while that on medium-grade and investment quality stocks has considerably increased. Technically, there is always a "thinner" situation in the latter type issues. Many have been able to move quite briskly to new highs on light volume. Had we had this type market in previous weeks, a tendency of volume to recede on new average highs would have to be accorded greater weight.

It is hard, if not impossible, to foresee where *bad* news, capable of giving the market an important shock, can come from. While there is, of course, uncertainty as to when and where decisive military events will occur, there is less and less basis for fear that such events will be adverse for the Allies. On the contrary, Allied moves this summer are awaited with high hope; and never have official utterances relating to the war prospect been more cheerfully confident. True, the Germans may launch at any time a third general offensive against Russia and again temporarily gain territory. We doubt that this would unsettle the market. Our unofficial military experts—and on this matter it is logical to believe their view is shared by our High Command—are hoping for just such a German gamble on the reasoning that (1) their offensive probably would fail and that (2) its cost to the Nazis in men and material would be so great as to bring the end of the war much nearer.

Meanwhile, there is other good news and much of it. After months of dissension, the French factions are at last united for effective military and political cooperation with us in getting on with the war. In Argentina, which was the last remaining political toe-hold of the Axis in this hemisphere, the Castillo regime has been ousted by revolution. On the Home Front John L. Lewis has surrendered to the Administration's firm order that the coal miners return to work; other strikes have crumbled; the authority and prestige of the War Labor Board have been re-inforced; and the stiff Conally-Smith anti-strike and labor union regulation bill has been adopted by the House by a nearly two-thirds majority. It is





now practically "official" that no new tax program will be even considered before the end of the year, if then.

In due time, possibly within a matter of weeks, the market probably will have worked itself into an untenable position, calling for a considerable retreat. As we have said before, the external justification is more likely to be a climax of good news from the war fronts, than adverse news. It is a Victory market, being led predominantly by stocks regarded as having favorable post-war potentials. Basically, it is discounting the end of the war, post-war business prosperity, and expectations of a generally conservative political trend.

There are two flies in this ointment and eventually they will get more consideration: (1) the fact that the war-time bull market will have eaten, before peace comes into sight, so much of the projected post-war cake; and (2) the very real problems—and substantial time interval—to be encountered by industry and trade during the year or more of transitional adjustment to a peace-time economy.

It is true that there is, and will indefinitely continue to be, a large surplus of cash funds available for investment and speculation in securities. But the foundation of the bull market does not consist wholly of these funds. It consists of that—plus a bullish public psychology. It was not the lack of investible cash which caused the market to go so low in the spring of last year. Thus, the surplus cash argument on which some of the more extreme bulls are projecting this rise in stock prices into the distant future is by no means fool-proof. Whatever the level of bank deposits, a psychological change can—and eventually will—cause investors and speculators to be less inclined to buy stocks, more inclined to sell them.

The composite trend of corporate earnings and dividends is not upward, but static at best. The question of when it may start on a sustained upward trend is largely conjectural. Normal bull markets go through three psychological phases: (1) Adversity has been over-discounted in the preceding bear market, a rebound in prices is justified on the basis of *existing* earnings and dividends, plus a more hopeful sentiment for the future; (2) the phase of rising earnings, with price-earnings ratios remaining moderate; (3) the dream phase, when high and rising price-earnings ratios are "rationalized" on the basis of imaginative and extravagant vistas for the years ahead.

Obviously, the present bull market had a solid foundation to begin with. Prices had gone lower in April, 1942, than was warranted by current earnings and dividends or—as subsequent events proved within a relatively few months—by war prospects. Judged by past peaks, such as 1929 or 1937, the advance does not yet appear extreme. But it is a bull market that can not have that solid middle phase, geared to rising earnings; and thus it rests in unusual degree upon a hopeful sentiment geared to a set of bullish assumptions for an indefinite future. For some fourteen months the fear psychology has been evaporating, the hope psychology getting ever strong—with no significant change meanwhile in composite corporate earnings. As a result the average dividend yield on the thirty stocks making up the Dow-Jones industrial average has now been reduced to approximately 4½ per cent.

There is, of course, no way of foreseeing how far a psychological bull market can go. The investor can get burned by over-staying the trend, but can also suffer anguish by selling much too soon. In a very practical sense, the bull trend is always right until proven wrong. It may be founded on moonshine, as it was for many months before the big bust in 1929, but the profits are nonetheless in real money.

What is the sensible policy? As a matter of prudent judgment of values, we would be cautious as regards "loading up" with new commitments for either long range or intermediate investment objectives; but as a practical matter we assume the great majority of our readers are already adequately invested. For these, the best policy, in our opinion, is to "ride along" until the market itself provides more positive "get out" evidence. All we can conclude at this writing is that it is not now showing topping signs.

Monday, June 7.

Windfalls in Millions

From Recovery of Foreign Assets by American Corporations

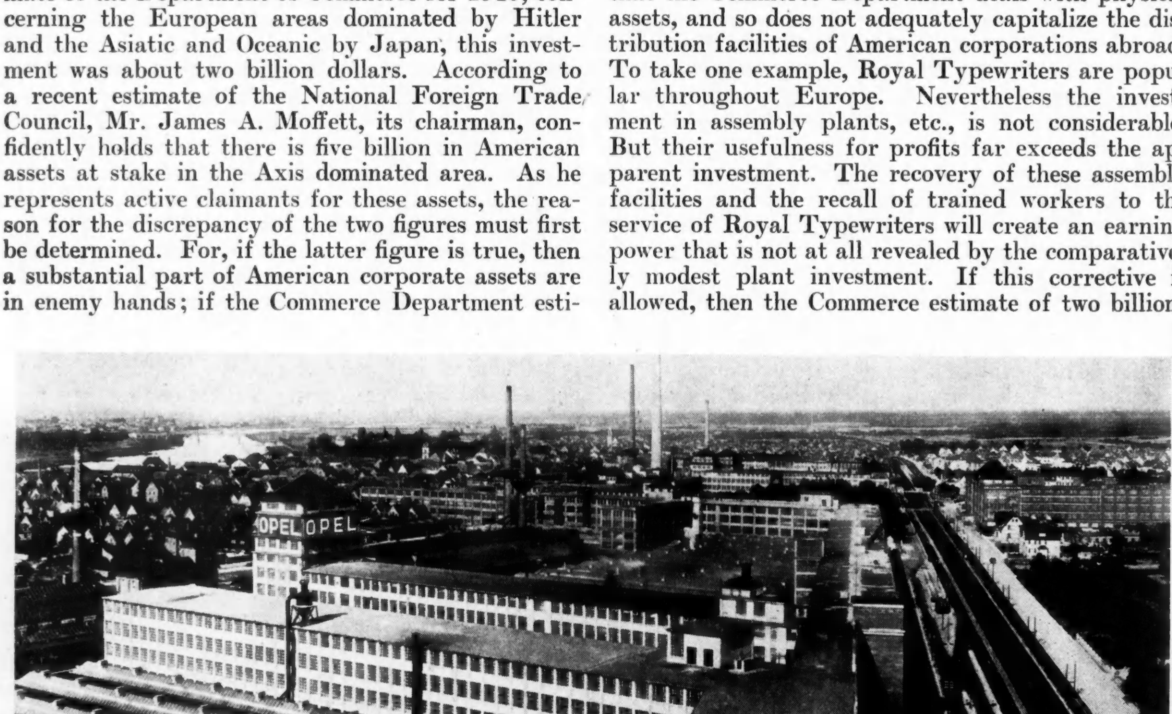
BY GEORGE B. COLLINGWOOD

THE Axis began its war for plunder. Whatever pretty names were used, whether the "new order" or "co-prosperity" sphere, they boiled down to old-fashioned theft. Among the casualties of these raids were several billion dollars in American-owned properties. Such wide-flung industrial empires as Standard Oil of New Jersey and General Motors are conspicuous sufferers. But what is not commonly known is that the roster of American corporations with these lucrative and important properties is quite long and that the possibility of the recovery of these assets is to be reckoned with as an important source of future earning power. In fact, since nearly all of these properties have been written off, or are covered by reserves set up against their possible loss, the recovery of these fixed assets ought to be nearly a net increment; that is, an unexpected gift to the book values of dozens of important stocks.

The size of American direct investments in these areas is not easy to determine. Using the last estimate of the Department of Commerce for 1940, concerning the European areas dominated by Hitler and the Asiatic and Oceanic by Japan, this investment was about two billion dollars. According to a recent estimate of the National Foreign Trade Council, Mr. James A. Moffett, its chairman, confidently holds that there is five billion in American assets at stake in the Axis dominated area. As he represents active claimants for these assets, the reason for the discrepancy of the two figures must first be determined. For, if the latter figure is true, then a substantial part of American corporate assets are in enemy hands; if the Commerce Department estimate is exact, then the investor must rather look to specific companies and single out opportunities rather than expect the total recovery of these assets to be a decisive market factor all around.

Apparently the Department of Commerce accepts the valuation of these assets as given by the corporations involved, in questionnaire responses. But this is not wholly satisfactory. American companies have for years liberally written off their investments abroad, whether through general reserves or foreign exchange reserves. Their present valuation, thus reduced, must be significantly below their market value. In the case of income in "blocked currencies", such profits have been excluded (rightly) from consolidated income statements, and hence have not been capitalized in the market. Yet, when these profits become available after peace, they must be included in the consolidated income statement and will come as a refreshing surprise.

Another reason for the differences in estimates is that the Commerce Department deals with physical assets, and so does not adequately capitalize the distribution facilities of American corporations abroad. To take one example, Royal Typewriters are popular throughout Europe. Nevertheless the investment in assembly plants, etc., is not considerable. But their usefulness for profits far exceeds the apparent investment. The recovery of these assembly facilities and the recall of trained workers to the service of Royal Typewriters will create an earning power that is not at all revealed by the comparatively modest plant investment. If this corrective is allowed, then the Commerce estimate of two billions



The Adam Opel plant in Russelsheim, Germany, confiscated from General Motors.

is too small. Perhaps three billions is a fair estimate of the value of American direct investments in Axis dominated territory, after making due allowances for a long series of write-offs due to excessive caution and also allowing for capitalized distribution facilities.

There is no comparability also in the earning power of these assets before the war and as they may appear after the war. In Germany, for example, our corporations were compelled to reinvest in the country, whether they considered it wise policy or not. If, for example, an American concern wished to distribute certain profits, or keep them in cash reserves, even within the area, they were nevertheless so taxed and badgered that they were forced to add to plant capacity, so that the German war machine might have as complete a war plant as possible, at the cost of foreigners. Such properties, in a free economy, could show liquid profits that would inure to the cash benefit of American stockholders.

Under the Revenue Act of 1941, American corporations were compelled to write off their foreign assets as a totality as an offset against the earnings of that year. For concerns such as American Radiator that was an enormous factor in reducing their showing. If the assets were not then written off they could not be deducted in any subsequent year. Some companies like Standard Oil of California, confident that their reserves were ample for just this purpose and optimistic as to recovery of these seized assets, did not take advantage of this possibility. When American Radiator's deductions are seen as 6.5 millions and Otis Elevator's at 6 millions, the importance of these deductions becomes clear.

Taxation Queries Numerous

This write-off leads to interesting, hypothetical tax queries. When these properties will have been recovered, will the restoration of their value be recredited as of the year in which they were deducted? If write-off of a property served to save some three millions in taxes, at 1941 rates, would its restoration in 1946, say (when it would have to pay merely one and a half millions in peace income tax) be condoned? Will allowances be made for the loss of earnings during the elapsed period, with accrued interest thereon? Will normal depreciation, depletion and obsolescence factors be permitted to be claimed? Will the reconversion costs made necessary because of enemy distortion of their use be taken into account. Will claims for damage, to be paid out of war reparations, be considered as income, once these write-offs have been allowed?

In every case, the answer would appear to favor the company. The writeoff in 1941 was effected by the Treasury itself setting an ultimate date at which such losses could be allowed. The time of recovery is unknown and the company is hindered in making its plans in the meantime. Full allowance must be made for the inevitable losses that result from the long lapse in operation, and from the losses normal in such passage of time, whether at home or abroad. Capitalized and cumulative loss of earning power must be allowed as a genuine loss. From every legitimate accounting viewpoint, we must assume that the companies will be favored in any such tax readjustment at the end of the war.

Not merely justice favors this policy, but economic considerations. The stimulation of foreign investment and trade is an avowed object of the administration. It is not likely that it will put any barriers in the way of such cheap and easy recovery of American assets, when it shows its willingness to advance long-term loans for the stimulation of this type of direct investment.

From these considerations we can say that the hundreds of millions written off in the 1939-1941 tax period, will be taxed at the rates prevailing when income is restored. This means a net windfall to stockholders, that may reach to far more than two billion dollars.

Damage suffered by physical plants can be compensated. The losses from enemy occupation, that is physical injury to properties and plunder of inventories, can scarcely exceed five hundred millions. The amount of enemy property sequestrated in this country will be held as an offset to such claims and will be distributed to our firms, as it has been in the past. Recovery of integral assets, and compensation for lost earning power as thus practical considerations for investors.

The principal doubt concerning some of these foreign assets concerns their technical position. War, in and of itself, by leading to certain industrial changes, may reduce the value of our holdings. The 132,000 acres in Sumatra and Malaya of the U. S. Rubber Company may not, in a period of synthetic

Typical American Corporations with Considerable Assets in Enemy Hands

	Indicated Assets Held (Estimated) in Millions	Per Share
American Radiator	7.8	.78
Anaconda	15.0	1.80
E. G. Budd	2.5	1.50
Burroughs	2.2	.44
California Packing	1.0	1.03
Crane Co.	1.3	.52
General Motors	47.0	1.07
Goodyear	14.0	7.00
Gulf Oil	8.8	.97
Int. Bus. Machines	14.0	14.05
Int. Harvester	10.0	2.35
Int. Nickel	7.0	.47
Nat. Cash Register	2.2	1.35
Nat. Lead	2.7	.90
Otis Elevator	7.4	3.70
Procter & Gamble	1.2	.20
Socony-Vacuum	67.0	2.15
S. O. California	6.5	.49
S. O. New Jersey	97.0	3.56
Texas	15.0	1.38
United Dyewood	3.0	21.40
United Shoe Machinery	7.3	3.17
U. S. Rubber	21.0	12.06
Woolworth	6.0	.63
Yale & Towne	2.9	5.97

rubber, be worth as much as when latex rubber was the sole raw material used. More economic methods of using tin may diminish the long-term value of such mines. The tendency of synthetics to replace crudes generally, may reduce the worth of some of our tropical holdings. On the other hand, the petroleum properties of Standard Oil of California, for example, in the Dutch East Indies, may have increased in post-war possibilities, due to a diminishing rate of increase of petroleum supplies at home.

For most of the companies operating abroad it may be doubted whether even obsolescence will be an important factor after the war. What does it matter whether National Cash Register has improved its production methods in the United States, if the need of European shopkeepers for such machines cannot be satisfied by European factories, now almost wholly distorted by war? Compared to the needs for goods in these areas, an old-fashioned factory may long be adequate.

Although collateral effects of peace are too numerous to mention, it may be pointed out that even in neutral countries, in which Axis commercial power is great, as in Spain, Portugal, the Argentine, Switzerland, Sweden, the pressures used against American sales have notably affected the value of some of our investments in those areas and caused our companies to set up reserves thereagainst. Such reserves may prove to be unneeded when the revival begins.

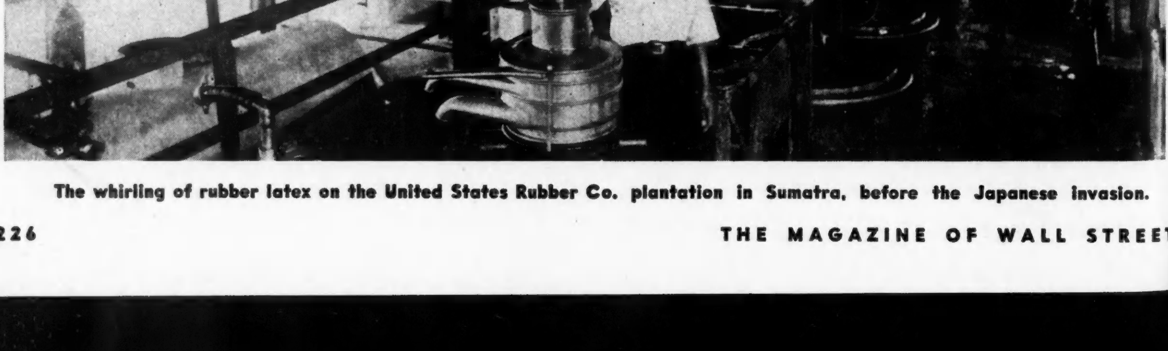
In Axis Europe, our petroleum companies are involved to over 300 millions, our distributors to 150 millions, manufacturing to over 400 millions. Certain cosmetic companies, like Bourgeois, Coty, and so on, were closely identified with French production. One American company, United Dyewood, would add a full third to its resources, or even more, once France is liberated. National Lead has prosperous and important subsidiaries for titanium oxide in Paris and Leverkusen, Germany, and in Frederickstad, Norway. Our motion picture companies, (although in varying proportions) have held theatres and either owned or leased producing properties in the occupied areas, and have depended on them for a large part of their absolute net profit.

In some cases, development costs have been enormous and on the point of yielding results when war intervened. The International Nickel Company, through a subsidiary, has put nearly 7 millions into Finnish nickel mines and smelters. In other instances its property was sacrificed by the American company to aid an ally. Gulf Oil voluntarily applied "scorched earth" methods to its French refineries to stay the enemy, and so lost over 6 millions (estimated) in this chivalrous action.

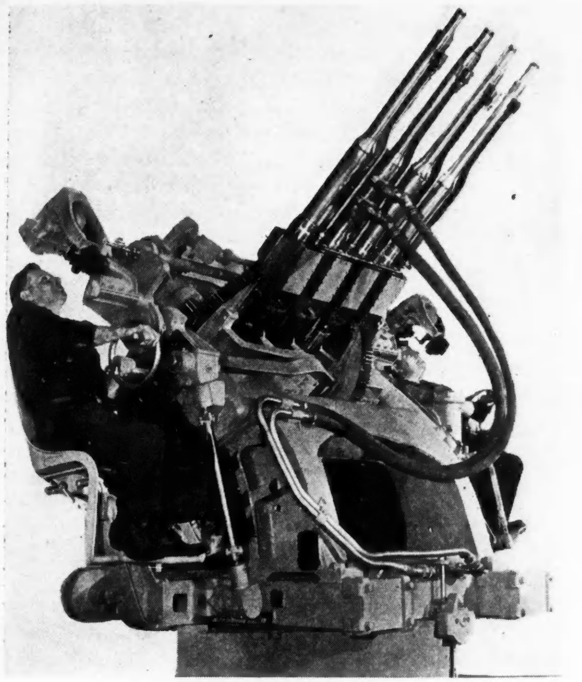
In some cases, investment in enemy countries, while large, does not constitute an important sum for stockholders. General Motors wrote off nearly 47 millions in 1941, of which about 35 million was accounted for by the loss of Adam Opel, A.G., their immense German subsidiary. But were all this to be recredited to General Motors (although a dollar a share is attractive) it would not alter the investment quality or dividend policy of the corporation, except as a potential for growth.

On the other hand, a subsidiary of Anaconda, the Silesian American Corporation, will see its entire 30 millions in assets restituted and thus prove important to the holding company stockholders, and decisive for its own bondholders. Where foreign investment is basic, as with U. S. Rubber, which has written off 15.5 millions, its development of an altogether different type of domestic production makes the implications of recovery different than from Socony-Vacuum, every one of whose last write off of 67 millions may be immediately available for the increase of net earning power. The variation of companies with respect to the earnings significance of their Axis-held assets is as great as it is in the domestic field itself.

Where reserves have been set up against possible losses, but these reserves have never been utilized, as in the $30 millions of Standard Oil of California, any recovery in earning power will be reflected in the market value, with taxation a consideration only with respect to income received and not to assets reclaimed. The same is true of those American companies who have done a large business abroad but have been unable to make some of these revenues available due to currency restrictions. When "autarky" ends, after the war, this sudden increase in earning power will not (*Please turn to page* 264)



The whirling of rubber latex on the United States Rubber Co. plantation in Sumatra, before the Japanese invasion.



Westinghouse anti-aircraft gun units like this shot down 32 Japanese dive bombers and torpedo planes in a Pacific battle.

WHAT EARNINGS DISLOCATIONS?

—From Contract Cancellations

—From War Production Shifts

BY WARD GATES

THE sky is no longer the limit in war production. A good many contract cancellations, the result of cutbacks in various production programs, permit no other conclusion. Industry, in supplying the sinews of war, is facing far-reaching changes in production schedules which make it clear that a new phase in war production has begun. Hitherto, the accent was on all-out production of everything to equip our growing Armed Forces, provide reserve supplies and furnish sorely needed weapons and materials to our Allies. Henceforth, production may be expected to proceed along more selective lines, governed by available transportation and replacement demand as weapons and materials are used up in actual combat.

Just what this will mean to our war industries is difficult to say in view of the secrecy necessarily surrounding military production plans. Moreover, the situation is shot through with a great many rumors which tend to obscure the over-all picture. However, on the basis of available information, the situation appears to shape up something like this:

The widely heralded reduction of new war plant construction and machine tool output represents the basic manifestation of the changed production outlook. As officially described, the action was designed to throw into direct production of weapons and other items needed for front line warfare all the manpower and materials which now can be diverted safely from building factories and machine tools. This, in turn, indicates first of all that our national arsenal is regarded large enough and adequately equipped to supply all foreseeable needs without further expansion of production facilities. It means the freeing of considerable quantities of raw materials, and important manpower for direct armament production. From available evidence, however, it is clear that it does not mean any notable relaxation of restrictions imposed on industries supplying civilian requirements.

Regarding plant construction, $7 billion worth of federally financed projects scheduled to be completed by the end of June will not be affected by the cut. As of that date, according to WPB estimates, $11 billion worth of construction out of a projected total of $15 billion will be practically completed, leaving some $4 billion subject to review and cutback. Whether the review will result in eliminating more than just "paper" plants is doubted in some Washington quarters; some believe the reviewing board may merely take some of the "water" out of construction plans. No definite course apparently has been decided upon so far but whatever the final determination, it must be assumed that the bulk of needed war plant construction has been accomplished, and building contractors are facing leaner days. So are the makers of building materials as long as private building activities remain restricted.

As to machine tools, new orders have been tapering off for some time. The cut in plant construction automatically implies a further decline with orders henceforth limited to replacements, special require-

A Stewart Warner shell fuse production line.

ments and lend-lease demands. Large Russian inquiries for machinery are understood to provide a partial offset. Production, however, will finally level off far below current output, once the existing backlog of some $650 millions worth of orders is worked off. This lowered production plateau, according to trade estimates, may be around fifty to sixty million dollars monthly against last year's peak output of $130 millions and current shipments of some $110 millions. According to a WPB spokesman, the machine tool industry will be helped to convert increasingly to direct armament production and individual companies will be directed to reduce their production rate by certain percentages by the end of the year so as to equalize the cutback. The changed status of the machine tool industry in the light of dwindling war orders was discussed in detail in a recent issue of the magazine; the conclusions then arrived at still hold good but it might now be added that post-war prospects, if anything, are enhanced by the reduction order because sharper curtailment now should mean greater replacement demand later.

Apart from plant construction and machine tools, cutbacks center primarily in tanks, certain types of guns, ammunition and explosives, combat vehicles and certain transport equipment. For obvious reasons, few details have been revealed so that it is difficult to diagnose the effect on the companies involved which, moreover, are not always identified.

The biggest curtailment occurred in tank production, primarily due to the accumulation of huge excess supplies, the cancellation of very substantial Russian orders and, to some degree, to the discontinuance of some models and change-over to others. Russian demand, it is understood, is now largely running toward transportation equipment, including locomotives and rolling stock; industrial machinery and other special equipment. Certain gun programs, chiefly involving anti-aircraft and anti-tank weapons, are understood to have been revised and temporary stoppages or slow-downs in the manufacture of explosives and certain ammunitions are reported as output was running far ahead of original schedules.

Available mechanized equipment, except the heaviest types of cargo trucks, is also said to exceed foreseeable requirements. Rather, the need for transport equipment now centers on railroad equipment with the result that American Locomotive and Baldwin Locomotive were ordered to suspend tank production and return to the business of building locomotives and rolling stock. Another railroad equipment maker, Pullman-Standard Car Manufacturing Co., also a prominent builder of tanks, as yet had no cancellations but the expectation is that future tank output will be confined mainly to Government tank arsenals such as the huge Chrysler plant whose operations, incidentally, have been reduced by some 30%. American Car & Foundry, one of the earliest to convert to tank production, was one of the first to feel the cutback. One plant, it is understood, has been closed and tank production orders for its other plants were tapered off although the severe cuts first made were somewhat modified. Other prime tank contractors, besides the rail equipment group, have been affected. The Government thus terminated the contracts of International Harvester to produce M-7 tanks just as the company was ready for production after many months of preparation. But farm implement production, like that of railway equipment, is to be expanded so that none of these concerns will be severely affected. The Ford Motor Co., and its Lincoln division, also had production of tank parts sharply curtailed but alternate orders on aircraft engine work are said to compensate for the resulting slack. The cutback in tanks may pose problems for the makers of armor plate who, it is understood, never have been able fully to utilize their greatly expanded facilities.

Supply Program Still Huge

All together, shifting Army demand is said to have affected some ninety war plants but their shutdown was short and about 85 of them were quickly given alternate orders on shipbuilding or aircraft work which will keep them fully or partly occupied. Output of merchant ships, naval vessels and aircraft —and everything that goes with it—continues unrestricted and at top speed. Production will be pressed more than ever to break the bottleneck in shipping which is in part responsible for the need to curtail certain armament output.

As a whole, our military supply program is still very much on the increase though further selective cutbacks are to be expected. Orders for materiel are still huge. The total authorized is now well over $300 billions; thereof, orders actually filled approach only one-third. A new Navy appropriation of $29 billions has just passed the House and the Army has sent to Congress a request for additional $71 billions. Certainly, there is nothing here to

suggest a let-down in war spending. While there will be an insatiable demand for aircraft and vessels of all types, it is quite conceivable, on the other hand, that before the end of the year production peaks of most other armament items will have been reached or passed. Whether and how soon schedules now reduced will be expanded again depends primarily on two factors: actual war demand and the progress of our shipbuilding program. The first will be determined by the direction of the next phase of the war. The second will be greatly benefited by the cutbacks, freeing for shipbuilding badly needed raw materials, notably steel, and additional manpower.

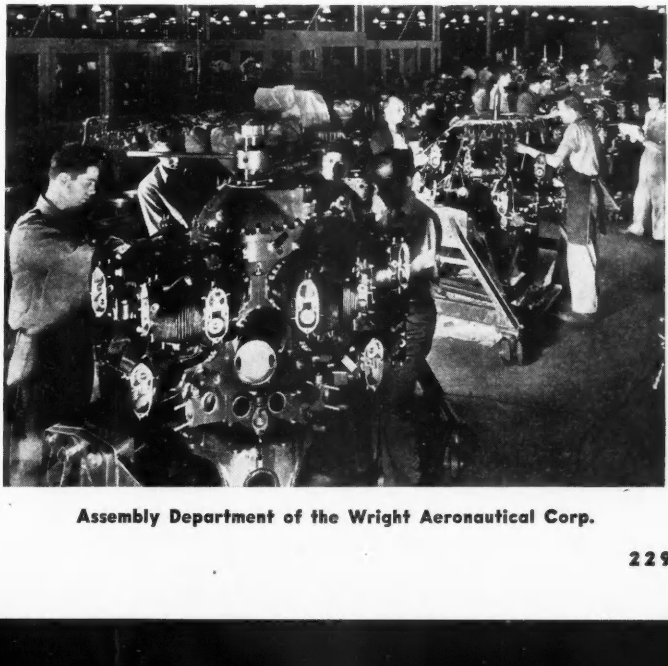
Smaller Plants Face Problems

While the total need will continue to tax productive facilities and manpower resources, contract cancelations have aroused widespread fears of a serious let-down in operations of individual companies. Apprehension of this sort is only natural, considering the lack of pertinent data, but actually appears ill-founded as far as the majority of the companies involved are concerned. All but a relatively small number will find plenty of other war work. With governmental aid, they should manage to fit themselves without much difficulty into the tremendous production program scheduled for aviation and shipping. The former seems to be unlimited, the latter calls for roughly twice the enormous tonnage launched last year. One difficulty arises from the fact that new orders cannot always be awarded instantaneously to any given company which has just suffered heavy cancellations, and certain plant capacity may be rendered idle temporarily while others are being strained. This sometimes means a painful interim period until new and suitable work is found, but hardly any prolonged idleness which the WPB is very anxious to prevent. On the whole, primary contractors, generally sufficiently diversified to switch fairly speedily to other work, can be expected to suffer but little from such dislocations. Those hardest hit are the sub-contractors, often small plants with little flexibility in converting to other war work, which may suddenly find themselves frozen out. Of those, again, high-cost producers face a real problem when casting about for substitute orders; they find the Government increasingly discriminating in the matter of production costs. It is in this particular class where hardships are most likely to occur despite Government efforts to avoid them. The latter, as a rule, is alive to the need of preserving these smaller producers not only for useful war work but more especially for the post-war period when their's will be an important part in providing employment and rounding out the nation's productive capacity. Government aid will probably be required to keep some of them in the running and the Smaller War Plants Corporation is endeavoring to find a solution of their problems.

Whether large or small, most war producers were provident enough to provide against such contingencies as contract cancellations and many created substantial reserves to tide them over periods of adjustment. Where such foresight was lacking, earnings are likely to be affected adversely when cancellations occur and a change-over becomes necessary. Beyond that, operating efficiency and managerial ability will greatly enhance prospects of emerging soundly from whatever difficulties may arise.

From the investor's point of view, then, these factors should become ever more important criterions in appraising the outlook of companies engaged in war work; that is, adequate reserves, operating efficiency, proven managerial ability and flexibility in switching to other work. All may be needed to guide a company safely through difficult periods ahead. Management, on its part, is showing increasing interest in contract cancellation clauses. It is understood that a standard clause, evolved by the various Government agencies, is nearing completion; the general principles embodied therein will be of the greatest importance to contract holders and investors alike.

In the reshuffle of war production now going on, civilian goods production may be dealt slightly better cards but as previously said, not too much should be expected. Greater output of non-essential goods appears out of the question but somewhat more liberal allotments of raw materials are looked for to meet certain essential civilian requirements. Among those mentioned are automotive replacement parts, particularly for trucks and buses. Farm machinery and oil well drilling equipment are also said to be candidates for better treatment. Additionally, the WPB is reported to be preparing an order which would more than double the present curtailed production of cooking and heating stoves. Large-scale construction of railroad equipment, too, appears in the offing and a building program involving 1,000 locomotives and 100,000 freight cars is reported under active con- (*Please turn to page* 265)



Assembly Department of the Wright Aeronautical Corp.

Equities that have far outstripped the bull market, in relation to previous major tops, must be presumed to reflect some special advantage and invite the scrutiny of investors who are looking for above-average situations.

Stocks Now Selling Above Their 1936-1937 Highs

BY L. O. HOOPER

AT the early May top, the industrial share index stood at 71.2% of its 1937 high, the rails at 58.2%, and the utilities at 55.2%. It is the exceptional stock, therefore, which is selling above the best price reached in the 1936-1937 bull market. There is less "inflation" in the stock market today than there was in 1936 and 1937—and much less than in 1929.

Stocks which have topped their 1936-1937 highs have done "better than the market," and "better-than-the-market" stocks always are interesting. Usually there is a reason for their superior performance. With this thought in mind, 25 of them have been selected for the accompanying tabulation. A few we would like to have included, like Thompson Products, Dresser Manufacturing, International Telephone and American & Foreign Power fall a little short of the requirement that 1936-1937 best prices are exceeded. Most "standard" stocks, or "blue chips" fall quite far short. Few rails can qualify, and almost no utilities.

A few qualities are common to most of the stocks in the tabulation: (1) 1942 earnings per share are higher than in either 1936 or 1937, (2) earnings in recent years have been far in excess of dividend distributions, (3) the broad trend in per share earnings has been definitely upward over a period of years, (4) in one way or another, they are representative of "growth" industries or "growth" companies, (5) they are not issues representative of the leading company in the industry, (6) in most cases, the management has been outstandingly aggressive and shown willingness to pioneer in some new field, method or product, and (7) these issues were not spectacular "features" in the 1936-1937 bull market.

To be sure a few, like Bendix Aviation, Continental Motors, New York Shipbuilding, Savage Arms and Willys-Overland may be classed as "war babies," but it is notable that outstanding war beneficiaries such as United Aircraft, Douglas Aircraft, Bullard, Bethlehem Steel, Crucible Steel, Lockheed and Climax Molybdenum do not find their way into this select company. Neither do the proud major chemical issues.

Evidently these companies, in some way peculiar to each one, "have something on the ball." In most, but not all cases, it would appear to be management. No doubt conditions, however, have made it relatively easy for the air lines, the shipping companies and some of the others to be so distinguished.

It would take more space than is here available to present anything like a complete analysis of the reasons for the performance of these stocks. Comment about each one can be made only in the most brief manner. What follows is an attempt to skim over the high spots and present a little background.

The nearest we have to "group performance" is in the airlines issues. Here is an industry which has been growing rapidly in spite of great difficulties. Just to cite an example, the express poundage handled by American Airlines in the first four months of this year was 5,865,372 pounds against 2,783,761 pounds in the first four months of 1942. Shortage of equipment has limited passenger traffic at a time when such traffic would have increased by geometrical proportions, but it has caused a much more intensive use of the equipment available. It does not take much imagination to conceive of what this great war in the air will do for the industry in the post-war years. It means better and cheaper planes, a wider public acceptance of air transportation and a much more rapid development of a still infant industry.

American Home Products has been doing some highly intelligent expansion into small trade-marked lines through advantageous absorption of other companies, moving further away from the possibly declining proprietary drug industry. Sharp & Dohme, through the efforts of a new management, has concentrated its operations more and distributed less; and it has had a splendid research organization hard at work, developing some important and perhaps revolutionary new products. As is common knowledge, Pepsi-Cola's progress in the cola drink field has been nothing short of spectacular; and the manner in which the alert management has coped with the sugar problem through utilization of Mexican sugar and syrups is the admiration of the

soft drink industry. Bayuk Cigars has maintained its leadership in the popular-priced cigar field through keen advertising policies. Cluett-Peabody can thank both the sanforizing process and better merchandising of shirts; it has made substantial trade progress.

Davison Chemical, after many years of slow development, has seen some of the romantic hopes of 1921-1926 speculators come to fruition in silica-gel. Gradually it has become more of a chemical and less of a fertilizer company. Fansteel Metallurgical's progress has centered around not only the use of powdered metals in the making of cutting tools, but also the use of the new rare metals the company specializes in as applications in the new and expanding science of electronics. Electronics also is playing a part in the affairs of Sylvania Electrical Products. Willys-Overland, under a new management and after a thorough reorganization, did perhaps more than any other company in the development of the "jeep," and those who have been buying the stock have paid a good deal of attention to some of the company's controversal advertising about the coming post-war "jeep in civies."

What U. S. Plywood is doing in the plywood and wood fields is a great romance in itself. The company has so many new applications of wood under consideration that it is a matter of selecting the best products developed by wood engineers during the past three or four years rather than finding more. President Lawrence Ottinger thinks that wood in the post-war period can recover many of the markets lost to steel and other products. Like the light metals, plywood is finding wide use in wartime airplanes. Of course the whole development centers around the comparatively recent discovery of new glues which are stronger than wood itself.

Spicer Manufacturing has been somewhat outstanding in the development of new gears for automobile parts. It had an important part in bringing about those new devices which eliminate the gear shift from modern automobiles. A small capitalization contributes to the leverage in the stock. Master Electric, like Emerson Electric Manufacturing which does not qualify for inclusion in the table, is a beneficiary from the much wider use of electric motors of which it is an important manufacturer. It is a typical growth company, and also is blessed by a very small common share capital.

The only "blue chip" quality issue which has found its way into the list is U. S. Playing Card, a Cincinnati company, which enjoys the unique distinction of having paid a dividend in every year since 1896. The company holds a dominant position in the playing card field where competition for many years has been on a high plane. Possibly one reason for the better-than-average performance of this stock has been a gradual public realization of the stability of the demand for cards. The company's record is quite impressive, and the stock has been growing in public esteem.

To what extent the remarkable growth of Lily-Tulip Cup's business has been due to war conditions is a matter difficult to estimate. There is a trend, however, toward paper containers and sanitary drinking cups which seems quite persistent. Certainly there still is a lot of room for the drinking cup business to grow.

West Indies Sugar is one of those major Caribbean sugar producers which was just emerging from reorganization in 1937. It has had one very good year which has enabled it still further to deflate capital structure.

In this discussion an effort has been made to be more provocative than analytical; and statistics have been avoided, to a large extent, outside of the tabulation—which, of course, really is the heart of the story. Among this select group there are no doubt quite a few market leaders of the future. There is percentage in following demonstrated winners.

25 Stocks Above Their 1936-1937 Highs

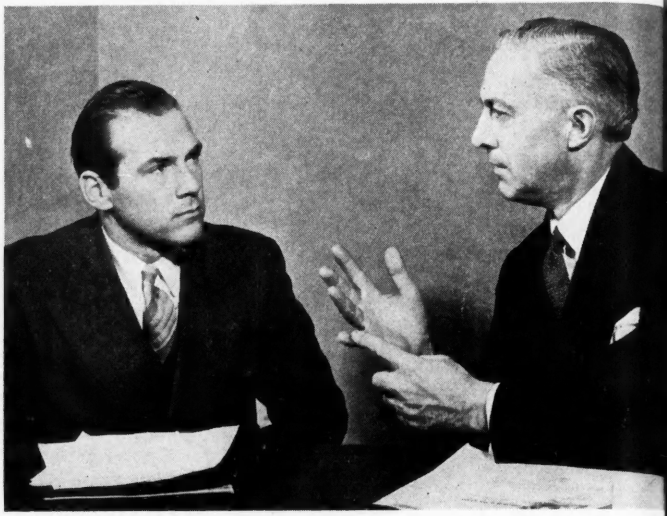
(In numerous cases 1936 peaks were above 1937)

	1942 Dividend	Recent Price	High 1936-1937	Earned Per Share 1942	1937	1936
Amer. Airlines	$1.50	70	35¼	$6.33	Loss	$0.02
Amer.-Hawaiian S. S.	3.00	34	21½	3.81	Loss	0.71
Amer. Home Products	2.40	66	52⅜	4.87	$3.88	3.81
Bayuk Cigars	1.50	28	22¼	3.20	2.17	2.10
Bendix Aviation	3.00(c)	39	32⅜	5.90	1.08	1.44
Cluett-Peabody	2.25	35	29⅞	3.85	0.72	1.84
Continental Motors	0.60(c)	6½	4	1.82	0.03	Nil
Davison Chemical	1.60(i)	17½	12⅝(e)	2.10	1.13	0.36(a)
Decca Records	1.15	17½	7	2.08	0.23	Loss
Eastern Air Lines	None	39	17⅜(f)	3.28	0.47	0.44
Fansteel Metallurgical	0.25	18	17½	3.65(g)	0.42	0.63
Lily-Tulip Cup	1.50	28	23½	3.14	1.80	2.17
Master Electric	1.80	29	22½	4.85	2.50	1.83
N. Y. Shipbuilding	3.00	23½	15⅝	6.09	Loss	0.55
Penn Central Airlines	None	15	11¼	0.95	Loss	......
Pepsi-Cola	2.25	44	3⅞(d)	3.31	1.12(h)	0.80(h)
Savage Arms	1.75	10½	6⅞	2.45	0.68	0.36
Sharp & Dohme	0.40	15½	14	1.32	0.25	0.41
Spicer Mfg.	4.00	38	37	10.57	3.61	4.26
Sylvania Electric Prod.	1.25	31	26¾	1.76	1.79	2.25
United Air Lines	0.50	28	24⅜	1.42	Loss	0.26
U. S. Playing Card	2.50	40	37¼	2.68	2.11	1.66
U. S. Plywood	1.20	41	17	3.00(b)	0.74	1.76
West Indies Sugar	0.50	15	6¼	4.12	0.83	......
Willys-Overland	None	7	5½	0.53	0.14(a)	......

NOTES: To avoid too many footnotes, differences in fiscal years have been ignored; earnings are for the latest 12 months fiscal period. Stock prices and earnings have been adjusted for split-up.

(a) Net is for less than a full 12 month period.
(b) Estimated for year ended April 30, 1943.
(c) Indicated rate at present.
(d) Price is for Loft, Inc.
(e) 1938-1942 high; not traded actively in 1936-1937.
(f) 1938 high; not traded in 1936-1937.
(g) Includes interest in Vascoloy-Ramet.
(h) Pepsi-Cola without Loft, Inc.
(i) Paid past 12 months.

Financial Information, Please



The Question: "Can We Support a $300 Billion Federal Debt?"

The Answer is "YES" as seen by John D. C. Weldon

FIRST, it is not certain that the war will leave us with a Federal debt as high as $300 billion. Thus, the question itself may tend to exaggerate the problem and the danger. At the end of May the debt, in round figures, was $136 billion, an increase of $68 billion in twelve months. Germany *may* be defeated this year; Japan within 1944. Though Federal outlays will have to be heavy in the post-war transition period, they will be far under the peak war-time level soon to be attained.

But for the sake of this argument, accept the assumed $300 billion figure. Can the people, as taxpayers, support it? I say yes. Must so large a debt result in an impoverishing inflation and a permanently higher price level in terms of radically diluted dollars? I say no.

Let me say emphatically that I do *not* argue that a huge public debt is, per se, a good thing, or that there is no limit to supportable debt. Big as it is, the $300 billion figure is specific and therefore limited—not unlimited as was, for example, the oft-cited, astronomical German "printing press" inflation. The latter comparison would be absurd.

There must, of course, be a manageable relationship between Government debt, national income and tax revenues. To maintain the confidence of the people in the integrity of their monetary system, the form and substance of fiscal orthodoxy must be adhered to. It *is* being adhered to. Taxes have been radically raised. The President and the Treasury insistently demand that they be raised still higher. Our fiscal leaders are making every effort to finance the war as largely as possible out of taxes and borrowing from the savings of the people, as little as possible by inflationary expansion of commercial bank credit. Ownership of war savings bonds permeates the bulk of the entire voting public. This is a strong — in my opinion, compelling — political guarantee of continuing fiscal orthodoxy. None of this would be so if *unlimited* debt could be regarded with equanimity. If it *could* be, obviously it would be absurd to tax ourselves at all or to waste time on war bond drives. We could just finance the war by unlimited manufacture of bank money ("invisible greenbanks"); or, more crudely, by printing currency.

At present the average interest cost on the Federal debt is a shade under 2 per cent. (Nearly a third of the debt is in short-term obligations at interest ranging from fractions to 1½ per cent.) No important rise in average interest rate is likely. We can therefore figure interest service on a $300 billion debt at $6 billion a year. To the taxpayers as a whole, this is not a net charge. The Government collects it as taxes, but pays it out as interest. It, of course, does not balance as among individuals. In impact upon the national economy, it does balance.

If one considers the $6 billion service as a tax burden, its weight is not absolute but relative to the national income. It would be 6 per cent of a national income of $100 billion a year, 5 per cent of an income of $125 billion, 4 per cent of an income of $150 billion. I believe that in due course we can attain—and will *have* to attain—a peace-time income of not less than $125 billion, with a dollar purchasing value at least as high as now prevails. Though "middle-of-the-road" in economic and

political philosophy, the American people henceforth will insist upon reasonably full utilization of our human and material resources for production. This demand for full employment simply can not be denied. If—as I think inevitable—its realization requires a "mixed economy," that is, of course, what we will have.

True, the war will permanently and largely increase the tax load. Our military and naval establishments will be maintained indefinitely on a scale far larger than before the war. There will be the cost of caring for disabled veterans. There will be large public works programs. After the post-war transitional period, it is conceivable that the Federal budget may average as a regular thing, say $20 or $25 billions a year. Out of the hypothetical national income of $125 billions, which I believe will come to be taken as a matter of course, that would leave $100 to $105 billions for consumer spending and savings —more than 40 per cent larger than the comparable figure for 1929.

We do *not* have to assume, as does Mr. Blackburn in his negative argument on this debate, that lavish pensions will be voted to the millions of ex-service men. True, Congress voted a soldiers' bonus in 1936 —about $2½ billion as I recall it—but it was a one-time adjustment. After nearly a quarter of a century, there is no general pension system for veterans of World War I. The very "totality" of modern war erects strong practical barriers against soldier pensions. Moreover, in this war, both the pay of our fighting men and support allowances to dependents, are much more generous than was the case in World War I.

As for "paying off" the war debt—it, of course, will never be paid off. If any major portion could be retired—without equivalent simultaneous expansion of private investment and private bank credit expansion, the immediate result would be a staggering financial deflation and depression. It will be desirable and possible to make token retirements in periods of active business expansion, but the great bulk of the debt will be "honored" simply by refundings upon maturity.

The war has opened our eyes and greatly raised our sights as to the real productive potential of America. Before the war, one who speculated on a future national income of $125 billions would have been thought a visionary. *This year we will actually produce a national income close to* **$140** *billions.* If we can do it in war, why can't we do it in peace? The same organizing brains, labor, machines and materials will be there. If we can do it, a $300 billion Federal debt will be manageable.

The Answer is "NO" as viewed by Henry L. Blackburn

BLUNTLY, the United States cannot afford a war-caused debt of 300 billions. The service on that debt, that is, interest payments and at least a gesture toward repayment, would cost over nine billions per annum Add pensions to that. The very war that brings about the debt also produces pensions, bonuses, compensations, and other negative dividends. The payments to a group of eleven millions (who will be over seven millions even a generation later) should average by precedent, four to five billions per annum. Since the social security philosophy is also here to stay, this total of fourteen billions taken out of production would be the annual charge on industry.

It is argued that taxation produces some such sum now. But does it? We are paying thirty million workers for producing *nothing at all.* The safety of the country and its liberty are spiritual values, not material goods. From the viewpoint of either capital or consumption goods, nearly the whole labor put into tanks, munitions or battleships could be forgotten. Hence the payments made to thirty million producers of non-reproducible and non-consumable goods are not payments out of present production, but drafts on inventories or anticipations of future civilian production. Taxes paid on this non-existent production are functions of the same material waste, and are not to be compared with recurrent genuine revenue to be received in the future.

The total production of true material goods in this country has never exceeded ninety-five billions. Of this amount eight billions must be set aside for plant renewal and extension, and sixty-five billions paid out for consumed goods and services. Total genuine savings have rarely exceeded four billions per annum. The net accumulation rate of American capitalism, in its golden age, from 1900 to 1928, was at the rate of three per cent per annum compounded. The service on the debt of 300 billions will be at the rate of over 7% of the total production of 120 billions in material goods per annum on the most optimistic post-war forecasts.

If these do not materialize, the situation will be still worse. As the service on this debt is a differential over and above pre-war debt service, by 10 to 1, it follows that this debt will extinguish the accumulation of national capital and result in a de-investment of some 4% per annum. That kind of dramatic de-investment would be at twice the rate which smashed the French franc from 1919 to 1927.

If, of course, production figures were boosted to two hundred billions for material goods then the debt might be barely tolerable. But note that if this is caused by an inflated dollar, then the country did not "afford" the debt: it has ducked it by diluting its money. In that sense any debt can be supported, for all one has to do is to inflate the "value" of money, and of course, any debt can be "paid." The

French franc was cut by 80%, after which it "paid" its debt (for a few years). When we ask, can we support a debt of 300 billions, we mean, can it be supported without destroying the foundations of savings. On that basis, given any conceivable productivity expressed in sound dollars, or in dollars roughly similar in content to present dollars, and the answer is No.

Two objections are raised to this calculation. One holds that debt can produce wealth, by Government stimulation; and hence that the expenditure of public funds creates new genuine purchasing power, which in turn creates business activity, which, in its turn, creates a revenue to repay the debt or the service on the debt. According to this reasoning, debt is to be an ever-growing quantity, expanding at the same rate as production. Hence a permanently unbalanced budget is the source of prosperity. This is argued on the analogy of private capital. Private capital created loads of bonds and mortgages and bank credits and throve on the piling up of debt.

But even if this strang conception were true, it has nothing to do with a war debt. The 300 billions this war will leave as a heritage will be an economic waste, and not productive investment by the Government. Perhaps twelve billion of the three hundred will be utilizable capital, but as a totality, it will be wasted. In 1918 there was much talk of the use of war scrap, and so on, but it proved an illusion. Hence, war debt must be considered on its own. Its service will exceed the highest accumulation rate ever experienced, without rendering any economic equivalent, and so will prove ruinous ultimately.

Proving Too Much

The pro-debt group have another subtlety. They argue that even if the debt represents a deadweight economic loss, the service does not. Interest will be paid from one group of taxpayers to another group of recipients. The recipients of the interest will then buy either consumption goods, or they will put their money into banks and insurance companies, who will proceed to make these savings available for producer's goods. Hence nothing is lost.

This delightful reasoning proves too much. It proves that we can support any debt, no matter which, even ten times three hundred billions. It proves that no kind of economic transfer from one group to another has the slightest significance for the body politic as a whole. Thus, if wages are doubled, the worker either buys more goods or saves more, and in any case he so activates industry that all is to the good. Or, if wages are halved, the corporate profits are invested in producer's goods that employ labor, so it is all the same.

This solemn nonsense is the standby of the "infinite, continuous debt" theorists. They forget that in economics, the question of balance is central. There must be a certain correspondence between accumulation and consumption. Consumption must absorb goods previously produced: if it does not, a crisis must result. Consumption must not diminish the capital goods supply: if it does a country is impoverished. Right now consumption is impoverishing us, and some day we must pay the piper. The correct way to handle this is to tax away consuming power, so that a better balance is restored, during the unavoidable loss period of war.

Historically, it is argued that we can support this crushing war debt. Britain, it is said, owed 3.5 billions after Waterloo. The kingdom had a mere twenty millions of people and a primitive production capacity, in our terms. Britain supported a debt of thirty billions after the last war: a mere fifty million people did that. She recovered in both instances.

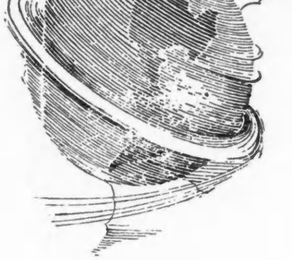
These instances are misleading. The new gains in primitive capitalism, after Waterloo, were at many times the annual rate of our present proven accumulation, and England, after 1918, was fished out of difficulties by American investment, that is, by the world investment of a country whose debt load was only an eighth of hers, in relation to total production. But if we carry a load like 300 billions, it must be remembered that *we are the last source of surplus capital.* If our debt cannot be sustained without monetary disorder, then world chaos will result.

The Threat to Capitalism

Capitalism can recede only into poverty or sink into an inflationary quicksand if we increase our war debt to 300 billions. Prudence requires that the older counsels of responsible financiers be closely adhered to. The notion that internal debt differs from external is the greatest single source of optimism on the debt. Consider France. No country, prior to 1914, had saved more money in proportion to its production. None had a sounder gold reserve, a more conservative bank note policy. None had invested as large a proportion of its savings abroad, which produced invisible imports. None rivalled it for tourist trade which brought billions into the country, without export of corresponding commodities. Here was a progressive fortress of capitalism. Here was a country without a currency crank. But, as the war went on, it relied on the issue of bonds rather than on the acceptance of a crushing weight of taxation temporarily. When 1918 came, despite the lavish aid of the United States, which was repaid only in small part, the increase of the debt extinguished savings and destroyed the currency.

Every time the United States has succumbed to the philosophy of continuous debt, it has paid dearly for it. The revolution was financed by avoiding taxation and only the genius of Hamilton, by consolidating our credit, later preserved the independence, which, won at Bunker Hill, could have been lost in a welter of inflation. The Jacksonian era, multiplied debt and brought about a decade of chaos. The industrial revival of the United States dates from the time when the debt policy of the inflationists was beaten back by the National Bank Act of 1863 and taxation was relied on to finance most of the Civil War. The inflationary spiral created by the excessive reliance on debt under the Wilson administration, touched off an easy money passion, that culminated in 1929 . . . The hard way is the only right way.

Watch the World Go By—



Turkey and the New Economic Nationalism

BY GEORGE RIVIERE

THE obvious importance of Turkey to a possible quick decision in the war is such that speculation is rife as to whether Hitler will first attack so as to take the Dardanelles, or whether arrangements have already been effected by Churchill and Prime Minister Inonu, for a Turkish military alliance, so as to facilitate the landing of Allied troops in the Balkan peninsula. The stubborn defence of the Kuban bridgehead by the Nazis indicates that they rather fear the latter: it would be a depth bomb that would send them flying from out the Black Sea areas and forever exclude the idea of victory. What manner of state is this Turkey? What possible economic motive could align it with the Allies? Why has it resisted German intrigue and pressure?

The stakes are high. Apart from being Germany's unique source of chromite, a central war material, Turkey is almost indispensible for the realization of Germany's old Bagdad railway concept and of her domination of the East. For the Allies, it is a bastion which would permit us to unite by land with Russia, much better than through Iran, and to ship supplies to the Caucasus by way of the Dardanelles, and thus implement the supremacy of the Mediterranean. These are the facts known to everybody but they acquire meaning only when some more obscure elements are considered.

* * *

Turkey has been modernized with incredible speed. It has turned an almost wholly illiterate people into a progressive, modern folk. It has rebuilt its country without calling in the aid of foreign capital. It has freed its country from the shackles of outside finance of that rapacious variety which bribed the Sultans. It has tightened its belt for twenty years so as to industrialize a poor and primitive land out of the tiny fat it could accumulate every year. It has shown a rate of industrial growth that rivals the Soviet Union, but, unlike it, it has also shown great strides in agriculture and has added to creature comforts.

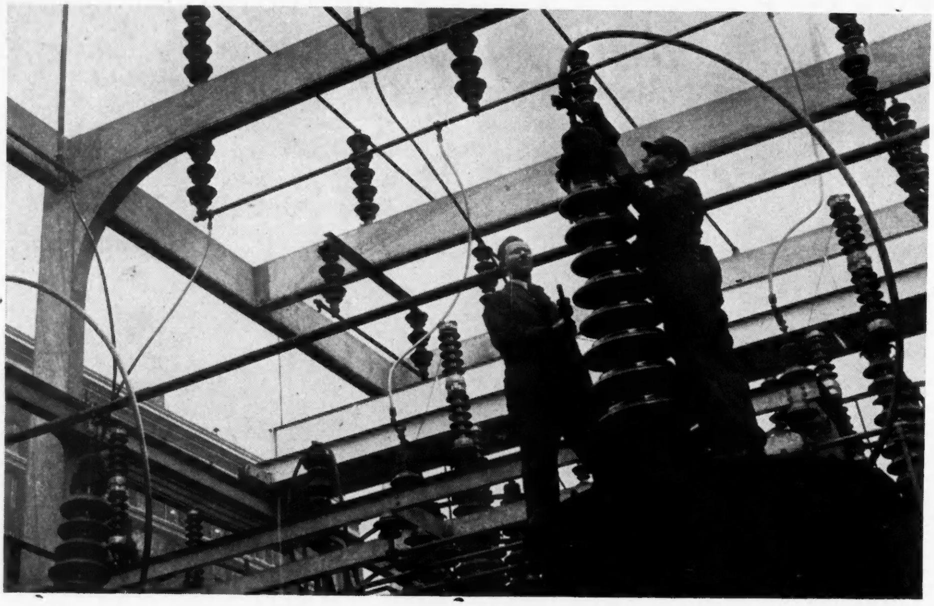
It is a new nationality, no longer relying on Greek and Armenian for trade, artisanship or administration. This people, once composed of warriors and peasants, has been transformed in one generation. They like factory production: they have called in the aid of European and American agriculturists to increase their once shamefully low crop yields.

But with all this, the rise of prices, as everywhere in the East, has been staggering and it has threatened the financial stability of the country. Here the allies have played their trump card. The Middle East Supply Center has made available to the Turks, as though they were already allies, those commodities they most require to arrest the inflationary spiral. The Germans, however persuasive their Dr. Clodius (with a concealed bludgeon) and however serpentine their envoy (von Papen, who always precedes the burial of the state to which he is accredited), have failed, so far, to produce civilian goods even on a barter basis. The German chromite agreement is to be carried out in 1943, but so far only a trickle has been exported. In the ability to offer consumer goods, the Allies are far ahead.

Turkey has served as a model for the new nationalism. There can be little doubt that its progress has inspired Chaing Kai-Shek. The Soviets have long boasted of their recov- (*Please turn to page* 267)

Gendreau

Istanbul, Turkey (old Constantinople)—A Gateway to Europe and Asia.



A high-voltage yard at Westinghouse.

UTILITIES TO-DAY AND TO-MORROW

PART I

Position of the Industry

BY FRANCIS C. FULLERTON

A LITTLE over a year ago utility securities—excepting high grade bonds—were around the lowest ebb in history. This was certainly not due to lack of business, since gross sales of kilowatts had been doubling about every decade, but rather to the ever-narrowing margin of profit and the fears of investors that net income would continue to deteriorate. These fears have now abated somewhat, and utilities have regained a small measure of their old-time popularity, largely on hopes of a post-war political turn to the right.

In earlier decades a popular political pastime was to condemn the railroads for "watered capital." Congress was not satisfied until the Interstate Commerce Commission completed the tremendous task of figuring the original cost of the railroads—a job estimated to have cost over $100,000,000. The figures were then promptly forgotten and nothing more is now heard of the railroads' "watered capital."

Since 1933 when the New Deal came in, the stage was set for a similar campaign against the utilities, and it has been vigorously prosecuted ever since with all the weapons available. However, Congress has not always fully cooperated, and has failed to supply sufficient funds for the Administration to carry out all its ambitious plans for construction and acquisition of huge power projects.

Hundreds of millions were appropriated for the construction of Boulder Dam (started by Hoover), TVA, Bonneville, Grand Coulee, Sante - Cooper and many smaller projects, but Congress drew the line at the St. Lawrence power project, the "seven little TVA's," the "grid" plan in the East, the northwestern Power Authority projected in the Bone bill, etc. Congress also failed to show any interest in the power shortage "bogy" raised by the Federal Power Commission a year or so ago, when the latter urged spending huge amounts for construction of new plants to meet war emergency power needs. Thus the Administration has been somewhat handicapped in this phase of its program, especially as PWA and WPA funds are no longer freely available to push the smaller projects, and priorities have slowed those already authorized.

The Administration has also been handicapped in its efforts to gain distribution facilities for its large hydro projects. TVA tried to open up competing lines against Commonwealth & Southern, but Willkie proved a vigorous antagonist and in the end the Government decided to buy up his Tennessee distribution facilities, at a price substantially higher than the original bid. The REA was set up to loan funds to farmers' cooperatives, but this competition has not hurt the private utilities to any great extent. Efforts to stimulate municipal ownership throughout the country, particularly in areas adjacent to Federal projects, have failed to produce worthwhile results in recent years, possibly because municipal

authorities were reluctant to lose the substantial tax income received from private utilities. Since 1933 the increase in privately-owned power output compares with publicly-owned as follows (billions of KWH):

	Gov't Power			
	Municipals	*Districts*	*Total Public*	*Private*
1933	3.6	1.1	4.7	76.7
1941	7.0	12.9	19.9	144.2

The proportion of public to total generating capacity has thus increased from 6 to 18% since 1933, and may increase somewhat further as the big power projects in the northwest are completed. However, war time difficulties have checked the growth of federal projects, and the post-war anti-depression program does not seem to include such projects. The Administration has failed of its major objective of setting up "yardstick" rates on a wide-scale competition with private companies.

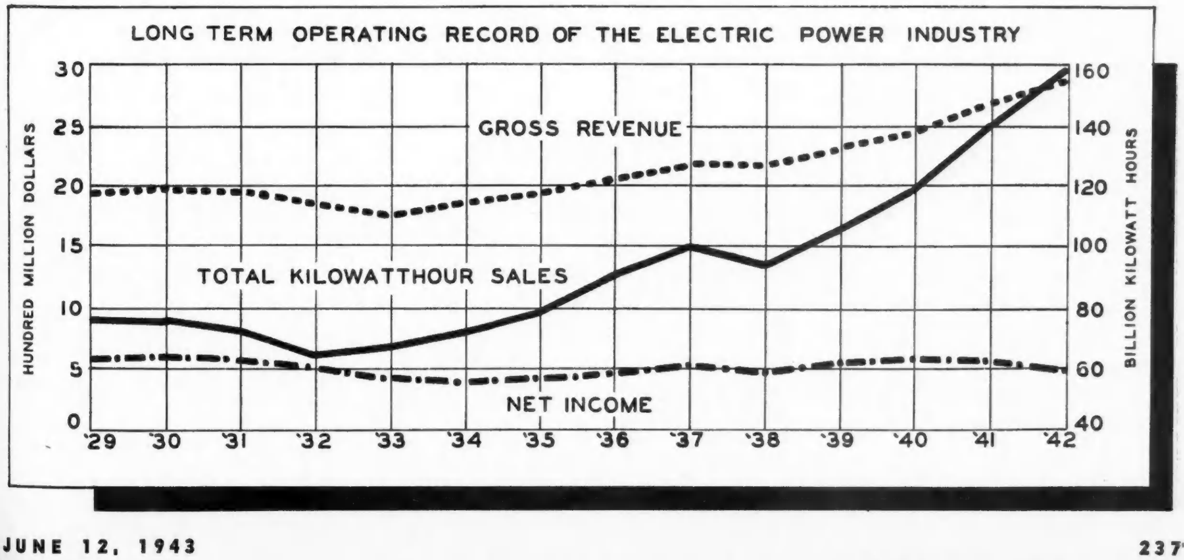
In the regulatory field, however, the Administration's fight against the utilities has been handicapped only by the difficulties of interpreting and applying the loosely drawn Holding Company Act of 1935. The constitutionality of the Act is at last being appealed to the Supreme Court, but with a number of New Deal appointees on the Court, it appears likely that the Act will be sustained. The SEC, while it spent a few years fumbling with interpretations of the Act and sparring with the utilities, has made up for lost time in the last two or three years. Many holding companies have been ordered to curtail income received from subsidiaries, to "subordinate" their own security holdings in subsidiaries to those held by the public, to scale down their own and their subsidiaries' capital structures, and in some cases to dispose of numerous subsidiaries within a fixed time limit. Some of these objectives have been gained by requiring the utilities to give their consent "voluntarily" as a consideration for obtaining SEC approval of important refunding programs.

Thus most of the Government's fight in the past has been centered against the holding companies, and an index of the stocks of these companies, at last year's low point, dropped to about 2½% of the 1929 high. Operating company stocks were somewhat less affected, since these stocks represent the independent companies not under SEC jurisdiction (except incidentally in connection with security offerings).

However, the Administration is now pushing an attack on the independent utilities also. These have always been regarded as intra-state and outside Federal jurisdiction (except in connection with hydro sites, or security offerings), but the claim is now made that many of these companies are really inter-state because their power goes over a state line to some other utility. Washington has also enlisted the cooperation of the state commissions. These state agencies, many of which have jurisdiction over both rates and accounts, are gradually being lined up with Administration policies. This job is being handled by the Federal Power Commission rather than the SEC, since the former is better equipped. It has been delegated by Congress to set up a uniform system of accounts for utilities under its jurisdiction, particularly those licensed to use federal power sites. The state commissions some time ago organized a national body to promote greater uniformity with respect to application of state laws. This is known as NARUC—National Association of Railroad and Utility Commissions—and it meets in Washington. It has no official standing, but forms a convenient medium for the Federal Power Commission to impose its accounting rules on the state commissions, which in turn impose them on the intrastate utilities.

Thus, so far as accounting matters are concerned, the state commissions are now largely following the lead of the FPC. In fact, in a recent rate case, that of the Utah Power & Light Company, the FPC sent its own lawyers to Utah where it is reported that they took an active part in the proceedings before the local commission, though actually they had no authority to do so.

The principal efforts of the FPC have been to



Leading Utility Operating Companies

Company	Gross Revenues (Millions) 1942	Gross Revenues (Millions) 1941	Federal Taxes (Millions) 1942	Federal Taxes (Millions) 1941	Times Fixed Charges Earned 1942	Times Fixed Charges Earned 1941	Times Pref. Div. Earned 1942	Times Pref. Div. Earned 1941	Earned Per Share Common 1942	Earned Per Share Common 1941	Dividends Year 1942	Dividends Latest Payment	Recent Price
Boston Edison	$40.5	$39.0	$5.3	$3.1	4.4	4.4	No Pfd.		$2.30	$2.43	$2.00	$0.50	30
*Cleveland Elec. Ill.	37.3	35.3	5.0	4.5	5.5	6.5	5.4	6.2	2.14	2.54	2.25	1.12½	30
Com. Edison	172.4	165.5	19.4	17.8	2.8	3.2	No Pfd.		1.74	2.10	1.60	0.35	24
*Cons. Edison	260.9	261.3	16.8	15.0	2.7	2.9	2.9	3.1	1.79	2.00	1.60	0.40	20
*Cons. Gas (Balt.)	47.4	43.1	4.2	2.3	3.5	3.6	4.8	5.2	4.20	4.64	3.60	0.90	61
Detroit Edison	76.8	73.6	11.6	5.3	2.6	3.0	No Pfd.		1.23	1.96	1.30	0.30	19
*El Paso Nat. Gas.	8.1	6.7	1.6	1.0	5.2	5.7	20.2	20.7	3.32	3.38	2.40	0.60	29
*Pacific G. & E.	126.8	115.4	15.3	10.8	3.0	2.9	2.7	2.8	2.21	2.31	2.00	0.37½	28
Pacific Ltg.	54.0	48.7	6.1	3.8	3.3	3.3	6.7	6.4	3.51	3.35	3.00	0.75	40
Pub. Service N. J.	167.4	151.2	24.4	15.8	2.4	2.8	1.7	2.1	1.22	2.04	0.95	0.25	16
So. Calif. Edison	53.3	48.6	10.0	5.1	3.0	3.5	2.0	2.5	1.57	2.35	1.50	0.37½	23
*Washington Gas & Lt.	12.6	10.9	0.7	0.5	2.4	2.5	3.5	4.5	2.02	2.24	1.50	0.37½	20

* Attractive for income.

reduce the stated value placed on the properties of the operating utility companies, which would encourage the local commissions and the courts to fix lower rates. Moreover, the efforts of the FPC are now supplemented by the programs of the OPA and the Office of Economic Stabilization. These agencies, while fighting black markets, wage increases, etc., have not been too busy to overlook utility rates. They have attacked not merely the few and scattered efforts of the utilities to obtain rate increases to offset rising costs, but have also taken special steps to gain a substantial rate reduction in the case of Detroit Edison.

The fact that utility rates have declined steadily over a long period of years, and that the average consumer's electric bill is less than what he spends on cigarettes and liquor, makes no difference to the various Washington agencies, which are using the anti-inflation program as a pretext to press the persecution of the utilities along new lines.

One argument recently advanced is that federal excess profits taxes should not be considered as a "cost" and should not be taken into account in determining rates. Thus while the net earnings of the average operating company declined 5 or 10% last year as a result of federal taxes, the federal Government would use these taxes as a pretext to reduce rates, and cut earnings still further! The argument seems too specious to receive much attention.

Basis of Valuation

Getting back to the basic program of the FPC—its major program is to set up on the utility books so-called "aboriginal cost" and to write off or amortize the remaining plant value as now carried on the books. Aboriginal cost means the cost when the properties were first built and devoted to public use, even though this may have been fifty years ago and land values and construction cost may be far higher today. Of course, depreciation is also deducted. In addition, the FPC would write-off any plants which proved to be bad investments (the so-called "prudent investment" theory). Going still further, as in the Hope Natural Gas case, the commission would refuse to reinstate the legitimate original cost of plants or items which (under old-time conservative accounting policies) were charged off to operating expenses. Thus the commission is obviously interested in only one result—the lowest possible valuation for all utility plants. Whether it can secure the cooperation of the federal courts remains a question. In the Hope Natural Gas case, the Federal Circuit Court took an old-fashioned view and made a strong defense of "fair value" as distinct from "aboriginal cost." The Supreme Court had recently consented to hear the case and by the end of 1943 may clarify its own position.

A long time ago, in the days of William Jennings Bryan, the Supreme Court defined its ideas of "fair value"—a flexible combination of the various measures of value which might be available, rather than a rigid formula such as original cost of construction. This has continued as the "law of the land" until recently, when the high court yielded somewhat to the New Deal philosophy in an important decision. However, the court did not make a clear-cut switch to original cost and "prudent investment," and the Hope case is expected to decide the issue more definitely. The strong arguments advanced by the Circuit Court in favor of "fair value" may, it is hoped, carry some weight with the Supreme Court. But if the Court reverses its historic attitude on value, the utilities will be robbed of the protection which they have enjoyed for decades against unfair regulation by state commissions, and the FPC may gain a sweeping victory for the application of its "aboriginal cost" theories and corresponding changes in the rate structure.

It is true that in the hey-days of holding company promotion during the 1920's, the books of some operating companies were "written up" in order to justify the fancy prices which promoters paid for these properties. These write-ups were the subject of a special study by the Federal Trade Commission, and the results have proved very useful to the FPC and the SEC, in their analysis of plant values. In many cases where such write-ups were obviously artificial in character, the utility companies have yielded to commission pressure and written the amounts off their books out of surplus, without carrying the matter to the courts. Doubtless such adjustments could be effected in many other cases without great difficulty. But obviously this does not satisfy the FPC—they wish to cut all property values "to the bone" and possibly *into* the bone.

Fortunately, the program just described is not as dangerous as it sounds. The majority of the operating companies, whose stocks are owned by the public, already have constructive plant values, and investors need not be unduly concerned about "write-offs,"

though in some cases there might be temporary interruptions to dividends pending readjustments. Moreover, as far as the holding companies are concerned, their income from the operating subsidiaries has already been greatly curtailed. Even if their subsidiaries are forced to reduce rates as a result of a lowered rate base, this may not work out badly. Wendell Willkie proved this when he sharply reduced the residential rates of his companies, to meet and beat the threatened TVA yardstick rates. The low rates greatly stimulated the use of electricity, particularly where an aggressive campaign was carried on to promote sale of appliances.

Another safeguard is the heavy tax burden already carried by the utilities. Federal taxes are a great stabilizer of utility earnings, and the Federal Government would have to absorb some 40 - 81% of any loss resulting from rate cuts. Thus "aborginal cost" is robbed of most of its terrors, although it is obviously unfair to investors. Indirectly it will continue to hamper the sale of common stock by utility operating companies.

Theoretically, every dollar spent for additions and betterments by the utilities should be raised one-half by sale of bonds, one-quarter by sale of preferred stock and one-quarter by sale of common stock. Actually, little common stock has been sold since the New Deal began its campaign in 1933, though a considerable amount of earnings available for common stockholders has been diverted from dividends to plant construction. Such diversion has helped to depress the price of utility stocks and postpone stock financing, thus creating a "vicious cycle."

The anti-utility campaign waged by the Government tends to stimulate the sale of bonds rather than stocks, and taxes also favor such a trend. This is not a healthy condition for utility finance, and while there do not seem to be any immediate ill effects, over a longer period of years the industry is likely to deteriorate as a result of capital starvation—just as the railroad industry starved and was unable to finance and fight competitors on equal terms.

While the rise in utility securities in the past year has been remarkable in some cases from a percentage viewpoint — American & Foreign Power warrants, for example, advanced about 10,000% (from 1/32 to 3⅜)—holding company stocks still average only about 7% of the 1929 high level. A move is on foot to ask Congress to amend the Utility Holding Company Act. A bill was introduced some time ago which would give the SEC discretion to suspend Section 11 during the war-time period, and hearings on this seem likely in a few weeks, after the new proxy rules have been debated. But this bill does not seem strong enough, for it leaves Section 11 to the tender mercies of the SEC itself.

Dr. Elisha M. Friedman recently wrote a long letter to the Editor of the New York Times calling attention to the fact that only one-third of the Congress which voted for the act were re-elected and that the act itself "was drafted hastily and in an emotional atmosphere." Moreover, he pointed out the act is one of the few important laws which has not been revised on the basis of subsequent experience with enforcement problems. Thus the Interstate Commerce Act has been revised thirty-eight times, the Civil Service Act sixty-six times, the Federal Reserve Act fifty-one times.

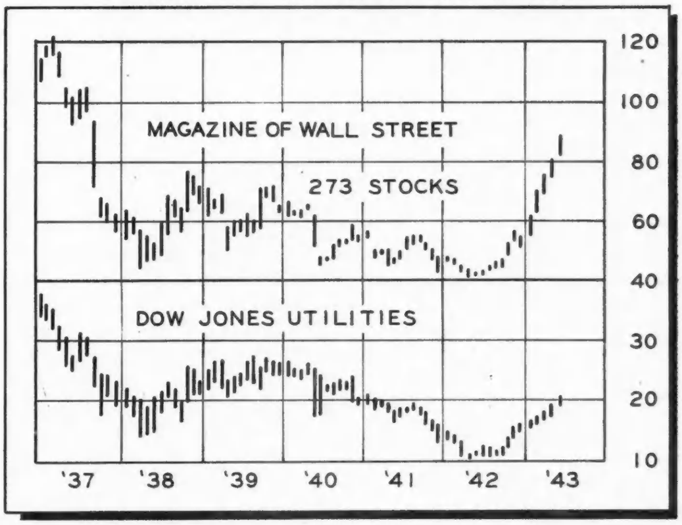
Even if the law is not revised, Dr. Friedman points out, the SEC should delay operation of the "death sentence" during the war. Many Government regulations have been suspended or relaxed due to war-time conditions, but the SEC has instead pursued its enforcement program with greater vigor.

Enforcement of "Death Sentence"

The SEC has enforced the act in spasmodic and piecemeal fashion. It has paid no attention to Section 30 which provides for a master plan for consolidating utilities, and this has resulted in great confusion. Individual systems are asked to submit plans for geographical integration but they do not know whether their plans will agree with those of other systems. The SEC apparently thinks that it would take too long to prepare a plan under Section 30; but it has already spent seven years in studying the position of the utilities. The ICC followed the instructions of Congress in 1920 and prepared consolidation plans for the railways; the SEC has ignored the mandate of Congress.

Dr. Friedman estimates that investors have lost $4,000,000,000 due to the enforcement of the Utility Act, which was designed primarily to aid investors. Another recent estimate in the Public Utilities Fortnightly was $6,000,000,000. Holding company stocks usually sell at much lower levels than the estimated value of the parcel of operating company stocks which they own, because investors are kept in uncertainty regarding the methods and timing by which dissolution programs will be worked out by the SEC. In some cases (as for example in the Elec-

Utilities Are Still Behind the Market



tric Bond and Share group) there are many problems as to relative treatment of various classes of security holders and the degree of subordination of securities held by the holding companies. Progress in ironing out these conflicting claims is so slow and irregular that many of these securities (on which income has been cut off) have been selling at prices well below their intrinsic value.

PART II

The Prospect for Utility Securities

The rise in prices in the past year was partially due to better treatment of the utility industry in the last tax law than had been expected, and hopes that Congress would make some move to suspend or revise Section II. Due to technical provisions inserted in the tax law, some of the large holding companies—such as Associated Gas, United Light & Power, and Standard Gas & Electric—were able to report increased earnings for 1942 despite the fact that the independent operating companies as a whole suffered a decline. Thus Congress made some slight amends for the harsh treatment previously accorded the holding companies, and it is to be hoped that further recognition will be made of the plight of security holders.

Despite the widespread interest in Section II and the importance of its enforcement by the SEC in particular cases, taxes remain the most important factor affecting the general level of utility prices. Utility securities dropped to their lowest levels early last year on Mr. Morgenthau's demand for a 55% normal income and surtax, and as the tax pressure was lifted prices enjoyed a rapid comeback. Investors may again be subject to some shocks this year, but probably not to the same degree as 1942. Secretary Morgenthau has asked for $16,000,000,000 additional revenue of which only about $3,000,000,000 has been raised through revision of individual income and withholding taxes. Corporations may again be called on to increase their tax burdens, but it seems unlikely that the normal and surtax will be raised above 45%. Increasing utility earnings, resulting from increased kilowatt sales of 15-20%, will probably just about take care of such an increase, though any exact estimate is difficult.

The reason why the utilities have not shared in the war-time prosperity of industrial companies is that, while their product is necessarily used in all war production activities, industrial sales usually return a very small margin of profit. Residential sales, which yield larger profits, have been curtailed by restrictions on sale of electric appliances, blackouts and dimouts, etc. Now there is a move for a nation-wide "brown-out"—curtailment of non-essential residential and commercial lighting — not because the utilities can't deliver electricity, but in order to conserve the use of coal and oil. It is uncertain yet to what extent this may affect utility earnings, but results will probably not be very serious, and they will of course be in effect for only part of 1943.

Utilities have made a remarkable showing in holding down their operating expenses. This was accomplished by failing to replace employees who entered the services, by introducing economies such as by-monthly meter reading, etc. Thus they were able to offset to a considerable extent the rise in material costs. During World War I, and in the post-war inflationary (*Please turn to page* 262)

Leading Telephone & Telegraph Companies

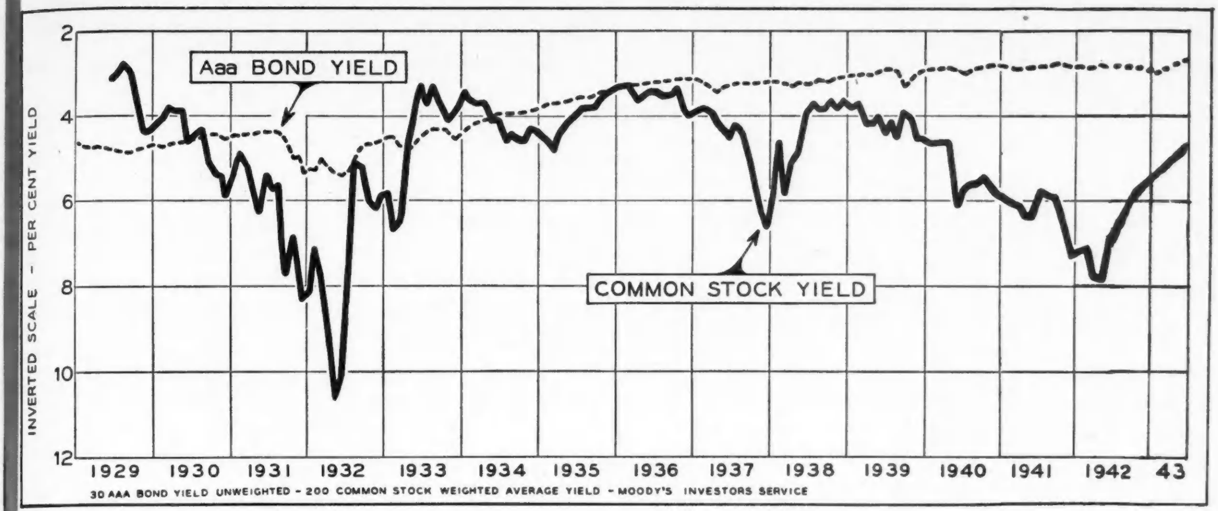
Company	Gross Revenues (Millions) 1942	1941	Federal Taxes (Millions) 1942	1941	Times Fixed Charges Earned 1942	1941	Times Pref. Div. Earned 1942	1941	Earned Per Share Common 1942	1941	Dividends Year 1942	Latest Payment	Recent Price
American Tel. & Tel.	$1469.3	$1298.7	$201.5	$106.3	4.1	4.8	No Pfd.		$8.57	$10.26	$9.00	$2.25	154
*General Telephone	24.3	22.3	3.4	1.9	1.8	2.0	4.2	5.5	2.22	2.86	1.60	0.40	22
New England Tel. & Tel.	92.7	86.4	9.4	6.3	3.0	2.9	No Pfd.		6.05	7.15	5.75	1.25	103
Pacific Tel. & Tel.	171.6	144.8	18.1	9.4	7.5	5.2	4.1	3.8	5.82	5.74	6.00	1.25	103
Southern New England Tel.	26.0	23.0	3.1	2.4	3.4	4.2	No Pfd.		6.6	7.87	6.75	1.50	122
International Tel. & Tel.	34.0	29.4	.4	.4	1.3	1.0	No Pfd.		0.33	D .03	......	......	15
**Western Union Telegraph	132.1	114.1	5.2	1.5	3.4	2.9	No Pfd.		8.95	7.05	2.00	0.50	37

* Attractive for Income. D Deficit. ** Attractive for appreciation possibilities.

Leading Utility Holding Companies

Company	Gross Revenues (Millions) 1942	1941	Federal Taxes (Millions) 1942	1941	Times Fixed Charges Earned 1942	1941	Times Pref. Div. Earned 1942	1941	Earned Per Share Common 1942	1941	Dividends Year 1942	Latest Payment	Recent Price
Amer. Gas & Elec.	$104.6	$97.7	$17.3	$9.5	1.9	2.1	6.9	8.2	$2.21	$2.72	$1.70	.40	27
*American Lt. & Traction	54.5	50.2	5.0	2.8	2.1	2.0(a)	7.1	7.2	1.78	1.81	1.20	.30	16
American Power & Light	123.1	114.8	16.0	12.5	1.4	1.4	1.0(a)	1.0(a)	.43	D 0.02	None	......	3½
*Amer. Water Works Elec.	68.8	62.9	11.0	6.8	1.3	1.3	3.1	3.1	1.06	1.11	None	......	8
Commonwealth & Southern	189.4	172.6	31.1	20.2	1.3	1.4	1.2	1.4	0.06	0.09	None	......	1
Electric Bond & Share	9.1	11.3	2.9	1.2	‡	‡	.7	1.2	D0.40	0.24	None	......	8
Electric Power & Light	139.9	126.7	17.6	10.8	1.4	1.3	1.6(b)	1.6(b)	.74	0.67	None	......	6
*Engineers Public Service	73.8	64.7	11.6	6.3	1.1(a)	1.2(a)	1.8	2.1	.96	1.27	None	......	7
Federal Light & Traction	11.2	10.2	1.7	0.9	2.0	1.9	4.0	4.1	1.51	1.58	1.75	.25	16
Middle West Corp.	77.4	74.2	9.9	7.3	2.7	2.7	Na	Na	1.14	1.13	.35	......	9
*National Power & Light	91.6	85.2	14.8	8.3	1.4	1.5	4.3	4.3	.76	1.03	None	......	6
Niagara Hudson Power	110.8	103.2	13.6	6.6	1.3	1.5	2.8(b)	4.6(b)	.29	0.66	None	......	3½
*North American	144.0	128.7	19.3	12.3	2.1	2.0	4.9	5.1	1.72	1.81	(c)	(c)	16
*United Gas Improvement	107.4	100.6	20.0	13.6	1.8(a)	2.1(a)	4.4	5.7	.56	0.77	.45	.10	9

* Attractive for appreciation possibilities. ‡ No funded debt. (a) Fixed charges and pfd. dividends. (b) 1st Pfd. Stock. Na Not available. D Deficit. (c) Paid in stock.



Another Look at Stock Yields As Compared with Yields on Bonds

BY J. S. WILLIAMS

Back in June, 1942, the Magazine of Wall Street called attention to the very wide spread between yields on common stocks and yields on high grade bonds. At the bottom of the 1942 bear market Moody's 200 common stocks yielded almost 8%, the average for April being 7.8%. Since that time there has been a gradual decline in stock yields (based on prices) until a low of 4.8% was reached in April and again in May. In the meantime, there has been little change in bond yields—so the spread has narrowed sharply, as the chart at the top of the page shows.

The question arises, therefore, as to whether common stocks are getting high in relation to bonds. To answer it, it must first be stressed that stocks were very low in relation to bonds at the bottom of the 1942 bear market; and pointed out that the spread at present still is wide except in comparison with 1884, a panic year; 1917, a war year; 1932, a panic year, and 1942, another war year. It must also be remembered that the government has interest rates in rather good control, and must continue to keep them low to take care of such a large government debt. At the same time, it might be pointed out that (a) the downward trend in dividends paid has not been as marked as it was expected to be a year ago, and that (b) dividend rates now are fairly well adjusted to the excess profits tax system and seem unlikely to be shaded a great deal. In other words, the market a year ago was something like the old lady who worried about things that never happened.

History and precedent may not be of much value in these hectic days, but the aftermath of each previous period of very high stock yields, and wide spreads between the return on bonds and the return on stocks, was a prolonged period of lowering stock yields. Stock yields sustained a 6-year decline after 1884, a 12-year decline after 1917 (with a moderate reversal in 1921), and a 5-year decline after 1932. It would be exceptional if April, 1942 were followed by a decline in yields lasting only a little more than a year.

In the last analysis, the relation of the return on stocks to the return on bonds depends on the investment public's attitude toward equity investments. As the chart shows, stocks were a very unpopular medium of investment in the early 1940's. No one wanted to take risks. There was little speculative interest. The demand for stocks was unusually poor. Everything seemed to be against them. Rightly or wrongly, the public's attitude toward common stocks since last September has shown a decided change. Stocks once more are popular; speculative interest has revived; investors are willing to take risks; previous fears are felt to be ungrounded. Furthermore, there has been a narrowing of the spread between stocks and bonds in London as well as in New York. In fact the London narrowing has been more pronounced than that in New York. The cycle of investor preference quite possibly has changed.

It may be well, too, to examine some of our old ideas about stock yields. When 5% or 6% was considered a fair yield on stocks it was possible to get 3% or 4% in the savings bank against 1% to 2% at present, and war bonds in 1917 and 1918 sold to yield 3½ to 4¾% (they yielded almost 6% in 1920 and 1921) against yields of 1% to 2.9% at present. If money rates are to be manipulated to low levels to help service huge national debts, should not the yield on common (*Please turn to page* 261)

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

Churchill's Plan to step up Britain's war in the Pacific in the Fall and re-take Burma, if carried out, will not constitute a major drive on Japan. Burma is a long way from Japan, only a step on the long road to Tokyo. But it would mean a route to carry lend-lease equipment, manpower, to stiffen China's will to resist. Until the Allies have more shipping, especially "flat-tops," it's idle to discuss who should be beaten first, Hitler or Tojo. Hitler is still the No. 1 our our list.

Foreign Trade is a very live "corpse." The record of the first 18 months of war proves that large amounts of shipping space have been taken up by goods moved through private channels. Cash exports handled by foreign traders in 1942 amounted to $3,151,000,000. Not business-as-usual, but sufficient to maintain the foreign trade mechanism and technic in readiness for post-war use.

> ***Washington Sees:***
>
> **The most critical "jurisdictional disputes" in history will be broken soon, and not by labor legislation.**
>
> **President Roosevelt's War Mobilization Committee has brought into existence machinery to knock together the heads of "czars" competing (not always above guerilla warfare) for top rating in the war production picture.**
>
> **Not even so basic an item as food is without its jurisdictional war—fought along lines that lose sight of black market, shortages, transportation, by the Office of Price Administration and the War Food Administration.**
>
> **There is no agreement among key agencies on the price roll-back subsidy program. Congress can't really know whether "government" is for or against.**
>
> **Secretary Frances Perkins is the "forgotten woman" in the field of labor relations. Other agencies, notably WMC, speak with greater authority in an area which is statutorily her's.**
>
> **Production, civilian supply, manpower, inflation—each has departmental supervisors competing with others in the same field, not knowing, seemingly not caring, where the jurisdictional lines lie.**
>
> **The President has given James F. Byrnes a mandate and an opportunity. If he fails confusion will be confounded.**

Business Mortality in the food distribution trades operating under price ceilings is apparent, not real, OPA insists. Far from reducing profits, community wide price control will give merchants economic advantages never before enjoyed, says Prentiss Brown who cites the fact—and it is fact—that business failures are the lowest in 50 years. But thousands have liquidated without bankruptcy.

Womanpower will be drawn upon more heavily in the immediate future than in the past. It is definite that most workers added to war and essential industries from this point on must come out of the kitchen. This potential labor pool has been estimated at 22 million women. That's almost one-half the entire national working force (47 million) as of December, 1941.

Liquidation of the prospective war debt of 300 billion dollars would require sale of every piece of property in the United States—real and personal—and leave behind a "deficiency judgment" equal to the amount realized. In this, the year that makes public financing history, the United States will raise 100 billions—raise it, not pay it off.

Travel Ration seems hardly avoidable. ODT has surveyed passenger movement at busy centers, and finds much of it unnecessary, inexcusable. Projecting statistics of the first five months of this year, 1943 will show a 16 per cent increase in combined physical volume and passenger transportation over last year's record high. In the first quarter of 1943, 52 per cent more people traveled in common carriers than in the first quarter of 1941. The equipment cannot stand it.

Creation of the Office of War Administration wrought little change in government operations. Few functions will be recast, titles may. The Roosevelt antipathy to personnel changes—firings—was behind the move. Bickering "czars," each supreme in his own field up to now, became department heads under Byrnes.

Actually the overall home front conduct of the war remains in the same hands as before—the President's. But more so than in the past, Byrnes will be a "Deputy President." His promotion marks the first step backward for Harry Hopkins, for a decade the alter ego of F D R.

Modeled somewhat after the British system, the setup is a war cabinet, embracing most of the agencies immediately concerned with the war.

The most significant omission from the lineup of O W M members was that of Prentiss Brown and his Office of Price Administration. Certainly no agency is more directly concerned with the home front than the one that rules rationing and pricing.

Brown inherited the resistance of industry and business built up under Leon Henderson's regime. And he added to it a consumer resistance that originated in the hinterland but sped to Washington and made itself felt on Capitol Hill and in the committee rooms.

By sidetracking O P A in the super war cabinet, the President can accept a Congressional mandate to distribute functions of ration, price, and supply without the stigma of failure of an agency of his own creation. Such a mandate is definitely in the making unless the President "beats the gun."

Post-war planning is a live subject in Congress but the lawmakers want to plan it their own way. Hence the Senate action reducing by 80 per cent—to $200,000—the annual appropriation for the National Resources Planning Board. N R P B is an agency close to the heart of F D R, headed by his uncle.

Senators striking the fell blow made it clear in debate that they are not opposed to post-war planning; opposed only to N R P B, which has functioned merely in the general sense of its descriptive title. Vague objectives backed by reams of supporting propaganda appear to have been the sum-total of its product.

Senate's refusal to act upon the Kilday Bill to defer the draft of fathers until all eligible single men have gone into uniform has important implications. Its defeat was a White House objective, with the War Manpower Commission carrying the ball.

Use of Selective Service as a weapon to enforce the work-or-fight order would have been negatived if Congress succeeded in enacting the Kilday Bill over Presidential objection. That ban was implicit in the language of the statute.

The Senate's failure to concur obviates the need for W M C to go to Congress for legislative ratification of its order. It spells the doom of the National Service Act.

How successfully the United Nations are in combatting the U-Boat menace still times the war's end and victory. In military circles, October now is mentioned as the month in which success of the drive on submarines will reach its zenith.

Last year Allied shipping losses exceeded new construction by around one million tons. At year's end the Allies had fewer ships to carry supplies and reinforcements to the far-flung fighting

fronts than at the beginning. Yet those fronts increased during 1942 and individual needs grew rather than declined.

In the first three months of 1943 Allied shipping losses remained heavy, with March the worst of the three. In April, the Axis admitted its toll of merchant shipping was on the decline.

But Hitler's home front has heard nothing of the change. Nazi prisoners being transported to America recently confided to their captors that they lived in daily dread of torpedoing. Told their chances of reaching port were almost guaranteed, they replied that Goebbels has assured one and all in Germany that not one in ten Allied ships makes a successful crossing.

John L. Lewis' application for readmission of his United Mine Workers to the A F of L is strictly a move for labor unity—a unity under him, to do his bidding. It would speed retirement of William Green as A F of L president, who would be succeeded not by Lewis, but by someone acceptable to the U M W chief.

Despite his unpopularity outside his own Union, Lewis is a much stronger figure in the labor movement today than is Green. He is president and spokesman for one of the richest and most powerful Unions; Green is president of a group of affiliates, each of which is independent in its own field.

Also Green has lost ground as a result of withdrawal of the machinists from A F of L affiliation, breaking a bond that has existed for half a century; and he has been blamed for racketeering in A F of L unions over which he has neither control nor influence. Wholly aside from Lewis' latest move, Green's days in the labor movement are numbered.

Pleasure drivers are experiencing only a taste of what is ahead. As air warfare steps up on present and new objectives, gasoline will become increasingly scarce, but the prime problem by the end of this year will be tires.

Actual study, using scientific methods, shows that more than one-half the tires on war workers automobiles have less than 7,000 miles of travel life left in them, will be completely worn out by the end of 1943. War workers will get the priorities on new tires and probably on recaps.

Independent retail food stores are taking business away from the chains. In the first quarter of 1943 independents forged ahead 30 per cent over the corresponding period of last year, chains dropped behind.

Consumers are "point" conscious, prefer the fresh vegetables at the corner store to the canned goods of the super-market shelves. And with travel inconvenience the community market is favored over the more distant giant store. Price ceilings are lower in the larger than in the smaller outlets—but price seems not to be a factor.

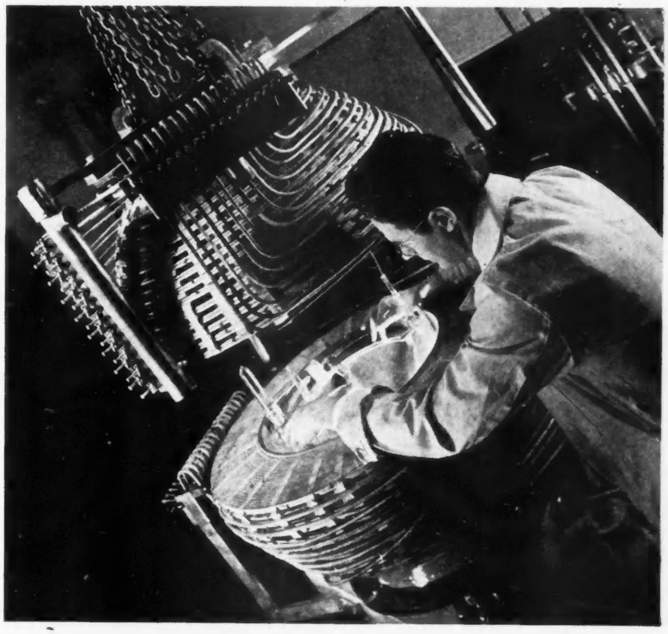
In 15 months since Hitler moved with global impact wholesale prices in the United States have risen 38 per cent, against 82 per cent in the comparable period of World War 1. Cost of living rose 25 and 41 per cent in those periods, respectively.

In summary, the United States has fared better than the British, though not quite as well as the Canadians. The cost of living has increased by 25 per cent in the United States, 16 per cent in Canada, and 28 per cent in Great Britain.

Washington forecasting on the 1944 Presidential situation currently boils down to this: Roosevelt and Wallace vs. Dewey and Bricker; the Democratic ticket a walk-away victory if the war still is on, the Republicans winning in a breeze if it is not.

ELECTRICAL EQUIPMENTS in WAR and PEACE

BY GEORGE W. MATHIS



A Westinghouse Physicist at a Spectrometer, an "atom sorter" able to perform in minutes chemical analyses that now require hours.

No previous war in the history of the world depended so much upon mechanical aids to the fighters, and no war has ever known so much electrical equipment in use as the present conflict. On land and sea and in the air, many mechanical aids are powered, or operated, or serviced by electrical equipment.

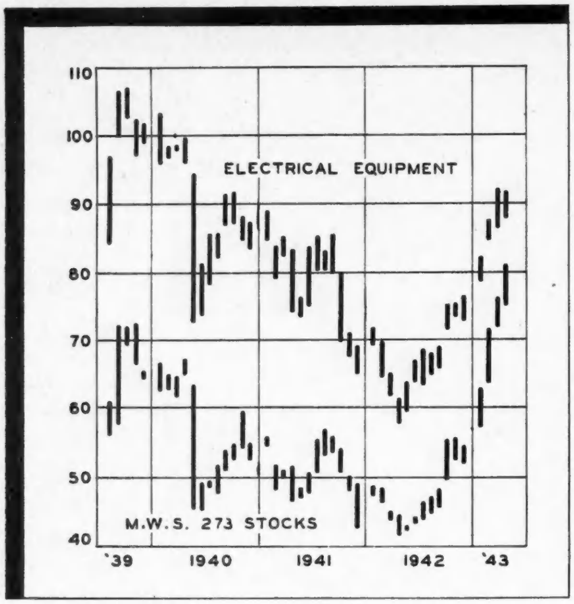
The industry of making electrical equipment went to war long before Pearl Harbor, in supplying materials to the countries already fighting and in preparing the United States for its part to come. It was not until this time in 1942, or even later, however, that the complete transition to war goods had been completed. Committees and special employees in all of the larger companies in this field had been starting the work of conversion to war as early as at the first German attack on Poland on September 1, 1939, and after the Fall of France, the conversion work was hastened; new plants, additional buildings, new devices, changes in old ones. From the first days of our own entry into the war, this change-over went on at a greatly increased rate. New personnel had to be trained, not only for the enlarged volume of business but to replace those who entered the armed services. Never in the history of this industry have so many men and women been employed as now. Even with the many new plants and more employees, however, a very large volume of war work given to the electrical goods industry has been farmed out to sub-contractors.

The application of uses for electronic controls of a number of devices has been a direct product of this war, coming from the field of research and laboratory experimentation right to the battle fronts. The word electronics has grown into the public vocabulary since this war started, whereas before 1939, it was something that few knew of, and except for doors which opened and closed without being touched, few directly came into contact with. It is known that fifty or more developments of electronics have had their place in the war work, including many important uses in television, radio and communications in general.

Radar equipment is the most spectacular of the electronics developments. This is a device which locates and correctly plots the course of approaching airplanes and it was of enormous value to the British in their defenses against German air attack, and is said to have been an important factor in the winning of the Battle of Britain. Radar was first developed by Westinghouse Electric & Manufacturing Company in 1937. In the past three years, this company has increased its production of radar and other communications apparatus more than forty times what it was in the Spring of 1940. The detection of the approaching Japanese at Pearl Harbor on December 7, 1941, was on a radar unit, but the accurate warning was lost, because an officer who was told what the mechine had revealed did not heed its message.

Radio tubes, lighting devices, and many of the smaller electrical goods are used in enormous numbers by the armed forces, but this war has produced a greater demand for capital goods than had been expected. These include some of the largest electrical propulsion equipment ever devised, with the General Electric Company making generators and driving motors for submarines and much heavier units for other warships, at a rate unheard of before the war. Huge electrically driven turbines are used on some of the largest battleships. There is also the use of the heaviest equipment for new plants which have been erected to further the war effort, some of which

Comparative Market Record of Electrical Equipment Stocks



have installed huge dynamos to furnish power, while the public utility, railroad and other industries have been able to get heavy electrical driving equipment or generators, where they received priorities because of their war work.

Besides the heavier electrical propulsion equipment, every ship that floats has some use for electrical goods, be it only a radio on some smaller ones, or flashlights. On all larger ships are communication systems, searchlights, gun-fire control, radio receiving and sending sets, detecting appliances, degaussing controls, and numbers of electric lights. On some of the largest ones are electrically controlled elevators, winches, and other heavier appliances. Nearly every larger ship is its own power house, with generators, switches, miles of wiring and other products of this industry.

The first turning over of the motor of an airplane calls on the use of some electrical devices, and then the operation of the motor continues on the sparks from electric current from battery or magneto. Large airplanes have dozens of electric instruments, accessories and devices in them, from fire control to electric light bulbs. There are radios, for sending and receiving. One of the developments of the present war is the electrically driven super-charger for high altitude aid to the engines' action. The changing of position of a large number of machine guns and the turning of the turret by means of electric power are two other developments of this war, in the larger airplanes. The electrically heated flying suits for the aviators and other members of the crew to use at high altitudes, or wherever temperatures are low, have been in use before the present war, but never in large numbers, whereas today they are being turned out by the tens of thousands. The more powerful airplanes each has its own generating equipment.

Every electrical device and instrument used in peace times is in the army or with the navy and the marines; yes, even the electrical hair-curling iron, and probably even the permanent-wave electric heater which one can see in the beauty parlor over some lady's head, has its use or an application of its principle by the forces. Tanks, trucks, mobile guns, jeeps, the general's motor car; all things which move across the land, have their self-starters, electric instruments, fire control, spark-plug, battery or magneto, switches and many other things from the electrical goods industry. Searchlights, radios, detecting, fire control, and many more things in which electricity is used are part of the equipment of infantry, artillery, signal corps, and other branches of the army.

Training of all of the services is started on land, and that means lighting, power, heat, communications and other equipment which use electricity in the training quarters. Here, the electric toaster, waffle iron, heater, oil burner, vacuum cleaner, electric refrigerator, and maybe the hair-dryer for the Waacs or the Waves, which the civilian can no longer get, are sold to the armed forces by the electric goods makers. All manner of industries serving the war effort can also get the electrical goods that are needed.

Post-War Markets

It is not to be expected that a large demand for electrically heated flying suits will be seen after the war, and there are many other lines of goods which this industry is making for the government which may no longer be on demand when peace comes. The major part of the war demand, however, is for devices and materials which are similar or exactly the same as those which the civilian population has been unable to get in quantity, or has been deprived of entirely because of the war.

The larger makers of electrical goods are in the refrigerator business. What they have to turn out for the armed forces differs little from what will be wanted by the general public in large quantity when available. The same applies on numberless other things from radio sets to flashlight bulbs and batteries. Conversion of the plants to peace should not prove either expensive or long delayed.

The need to apply the combined brains of engineers, laboratory experts and scientists to the provision of devices necessary in the war in the electrical field will be of great value in converting or applying the discoveries of war to the needs and comforts of civilians. In no field has there been so many new things discovered or improved as in radio and television. It is said, also, that the appliance of electronic principles in war has produced electro-mechanical equipment so ingenious that it "sees and thinks," and that this will have many peace-time uses in the home, the office and the factory to provide comforts and necessities by the mere pressing of a control button.

By far the largest company in the production of electrical goods in the United States, and the largest in the world, is the General Electric Company. In

1942, it booked over two billion dollars in orders and billed over one billion. This company is not only engaged in making all manner of capital goods, consumer goods and a list of electrical products which would fill many pages in just listing the different items, but it is a leading factor in electric refrigeration, household appliances, vacuum cleaners, air conditioning units, radio and television. In second rank is the Westinghouse Electric & Manufacturing Company, which is likewise engaged in numberless activities from capital to consumer goods, electric refrigeration, radio, television and other allied work.

Both of the larger companies and many of the smaller ones, have taken a large place in the war effort outside of the electrical goods field, making ordnance, ammunition, machine and motive vehicle parts, plastics, and other materials used in war work.

In the table accompanying this article is a resume of the normal work of many of the electrical goods companies. Weston Electric Instrument Company, for example, is the maker of over six hundred different measuring instruments. Many of them are applicable to war use and some special ones have been devised by the company for particular use of the armed forces. Precision equipment has also been a product of some of these companies, whether in connection with electricity or without it. The Black & Decker Company manufactures a long list of electrically operated tools. Clark Controller Company specializes in a number of starting and braking controls which use electric power. In the table are many of the companies which give the major part of their activity to making of electrical goods.

There are many others which are grouped with other industries, but which are partly or in some cases entirely within this industry, in its broader sense. This would include all of the companies listed as radio and television concerns; departments of most of the motor car manufacturers, such as the Delco Division of General Motors; companies listed as automobile accessory companies, of which example are Electric Auto-Lite and Electric Storage Battery Companies. Others which are part of the industry but are listed with others are the cable makers, such as General Cable and Okanite. One of the largest makers of telephone equipment and therefore really in electrical goods, is the Western Electric Company, wholly owned subsidiary of the American Telephone & (*Please turn to page* 264)

Facts About Leading Makers of Electrical Goods

	Earnings			Dividends		Price			
							1943		
Name of Company	Est. Per Sh. 1st ½ 1943	Actual 1st ½ 1942	Full Year 1942	1st ½ 1943	Full Year 1942	Recent	High	Low	COMMENT
General Electric Co.	$0.75	$0.72	$1.56	$0.70	$1.40	38½	38½	30¾	Largest maker of electrical goods in world—thousands of products from capital goods of largest size to smallest lamps. Gross in 1942 was $1,047,134,843.
Westinghouse Elec. & Mfg. Co.	2.50	2.10	5.42	2.00	4.00	94¾	96½	81	Second largest in U. S., also with complete line; 1942 gross $487,274,551.
Emerson Elec. Mfg. Co.	......	......	1.57	0.10	0.35	8¾	9⅛	4¾	Doing very large war work. Normally makes small motors, specializing on electric fans. 1942 gross $52,869,705.
Square D Co.	3.10	3.56	6.36	1.00	2.00	36	37¾	33	Switches, panels, automatic controls, insulators, aircraft precision instruments. 1942 gross $39,-349,041.
Cutler-Hammer, Inc.	1.60	0.84	2.29	0.50	1.25	21	21⅜	15⅞	Electrical control devices for industrial use. 1942 gross estimated over $35,000,000.
Sylvania Elec. Products Co.	1.20	0.96	1.76	0.50	1.25	32½	33¼	22⅝	Electric lamps, radio tubes and electronic devices. 1942 gross $32,338,870.
Wagner Electric Co.	......	......	3.96	1.00	2.00	30	31	24¼	Motors, transformers, fans, brakes. 1942 gross $30,500,000.
Weston Elec. Instrument Co.	2.50	2.23	4.59	1.00	2.00	34¾	35	31	Makes over 600 varieties of electric measuring devices used in many industries. 1942 gross $16,896,496.
Black & Decker Mfg. Co.	1.36	1.76	1.72(a)	0.80	1.60	18½	19¾	16	Portable electric tools of many kinds, also motors. 1942 gross $16,184,833.
Master Electric Co.	3.00	1.35	4.85	0.70	1.80	29¾	31¼	22	Electric motors, vibrators, regulators. 1942 gross $15,253,202.
Line Material Co.	......	......	1.32	......	0.50	9⅝	10¼	7½	Transmission, distributing equipment, switches, fuses. 1942 gross $11,757,652.
Reliance Elec. & Engineering Co.	......	......	2.18	0.50	1.00	13	13¾	10¼	Fan cooled motors, gear motors, mine motors, generators. 1942 gross $10,452,150.
Clark Controller Co.	......	......	2.84	1.00	1.50	17	17½	13	Control and starting devices. 1942 gross estimated $10,000,000.
McGraw Electric Co.	0.90	1.61	2.11	0.50	2.00	27½	27⅞	19¼	Fuses, lamps, toasters, household devices, lamps. 1942 gross $8,438,014.
Sangamo Electric Co.	......	......	2.14	0.50	1.10	21	21⅞	19	Watt-hour meters, recording meters, transformers. 1942 gross $7,503,229.
Robbins & Myers, Inc.	......	......	4.87(b)	......	......	5½	5½	1¾	Motors, fans, generators, hoists, cranes, pumps. 1942 gross $4,840,231.
Tung-Sol Lamp Works, Inc.	0.75	0.06	1.38	......	0.20	5¼	5½	1¾	Radio tubes, incandescent lamps, flashlights. 1942 gross not published.

(a) Large contingent reserve at year end. (b) Earnings correct; company earned $4.47 previous fiscal year; has $14.62½ a share arrears on preferred.

FOR PROFIT AND INCOME

Buying in Blue Chips

For some weeks an important group of more influential market commentators and investment counsel have been insisting that the quality common stocks, often called "blue chips," have been behind the market. It is their contention that stocks of this type usually are bought by the wealthy investor, who is more interested in quality, capital appreciation and growth than in dividends. This type of investor, the argument runs, had the market taken away from him in the early stages of the rise; and he now finds himself with too much cash and too little stock. Since the Dow-Jones industrial share index is composed to a considerable extent from "blue chips," it is likely to be highly responsive to any rise in quality stocks just as it was influenced to a lesser degree by the rise in highly speculative low-priced issues in the late winter and early spring.

What Is a Blue Chip?

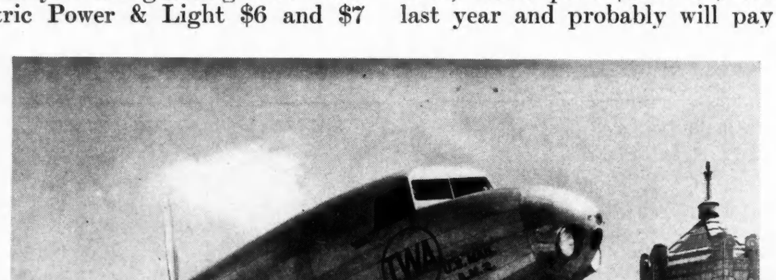
The definition of a "blue chip" depends on the thinking of the person using the phrase. The financial writer who coined it back in 1924 or 1925 was referring to the high priced issues, those selling at $150 a share up. Most of those 1924-1925 high priced stocks subsequently were split up into smaller ownership units selling at lower prices, but even at the lower prices they still were thought of by many as "blue chips." Gradually the phrase has come to mean, to many, a quality industrial, probably selling in a higher price range, owned largely by wealthy (or permanent) investors and affording a relatively low yield on its market price. A few examples would be Du Pont, International Business Machines, International Harvester and General Electric. The list, of course, could be greatly extended.

Electric Power & Light Preferreds

Some speculative public utility analysts are guessing that Electric Power & Light $6 and $7 first preferred stocks (the ones traded on the New York Stock Exchange) may be "the utility stocks of the year." They base this viewpoint on (1) the probable retirement of a considerable amount of holding company debentures ahead of these issues through the sale of subsidiaries, (2) the likelihood that common dividend payment by subsidiaries may be increased, (3) important recent oil discoveries on the leases of United Gas Corporation, a subsidiary, and (4) the possibility that a way may be found to refund the debt of United Gas Corporation to the Electric Bond & Share Company with the approval of the SEC. There seems little question but that the break-up value of the two first preferred stocks of Electric Power & Light is considerably higher than the current selling prices of around 59 and 61.

Higher Yields Still Possible

It is still possible to obtain some good yields on fairly good stocks. Pullman, for instance, which has paid a dividend in every year since 1867 and paid $3.00 a share last year, may be bought around 37; Chesapeake & Ohio, which paid $3.50 a share last year and probably will pay



Air lines are running "full house," thus making more profit out of less equipment. The group continues to "act better than the market."

Book Value Increase vs. Price Advance

	BOOK VALUE Dec. 31 1936	BOOK VALUE Dec. 31 1942	HIGHEST PRICE 1937 or 1936	HIGHEST PRICE 1943 to date	Increase in Book Value	Decline from 1936-37
Adams-Millis	$19.35	$31.04	35¾	28	$11.69	7¾
Amer. Chain & Cable	6.33	18.39	33¾	24¾	12.06	9
Anaconda	55.65	65.80	69½	31⅞	10.15	37⅝
Bohn Aluminum	18.93	33.46	63⅛	56½	14.53	6⅝
Brunswick-Balke	19.33	28.93	24½	18¼	9.60	6¼
Chicago Flex. Shaft	19.07	34.53	76¼	76½	15.46	¼*
Cleveland Graphite	9.48	19.87	48⅛	37¾	10.39	10⅜
Deere & Co.	14.90	32.03	47⅞	36¼	17.13	11⅝
Hiram Walker	26.59	54.83	51⅝	50½	28.24	1⅛
McGraw Electric	5.04	10.12	27¼	24⅞	5.08	2⅜
Montgomery Ward	28.46	45.62	69	43⅞	17.16	25⅛
Philip Morris	17.87	41.75	67⅞	84	23.88	16⅛*
Schenley Distillers	20.99	42.10	55⅞	37¾	21.11	18⅛
Skelley Oil	27.98	52.70	60⅝	43⅜	24.72	17¼
Spicer Mfg.	13.34	45.97	37	39¼	32.63	2¼*
Thompson Products	14.90	36.06	32¾	32½	21.16	¼
20th Century Fox	6.62	27.33	40⅞	21⅞	20.71	19
United Drug	4.31	11.49	16½	12¾	7.18	3¾
Weston Elec. Inst.	15.34	27.21	33¾	35	11.87	1¼*

* Increase from high of 1936 or 1937.

as much again in 1943, is selling around 44½ as this is written; American Chain & Cable, which pays $2.00 per annum lately has been selling around 24. Some fairly good second grade preferred, like Bethlehem Steel $7 preferred and U. S. Steel $7 preferred are selling around 120, and U. S. Rubber $8 perferred is selling at around the same price. Still higher yields may be obtained in such still more speculative stocks as American Car & Foundry $7 perferred at around 78 and American Woolen $7 preferred, carrying large accumulations, at about 70.

The average yield on 200 common stocks compiled by Moody's, however, in the past 13 months has dropped from 7.8% to 4.8%. High yields no longer are as numerous, and generally involve a larger degree of investment risk.

All Kinds of Equipments

An analyst who specializes in group movements recently called attention to the superior action of most of the "equipment" groups. The electric equipments, the household equipments, the office equipments, the oil production equipments, and the rail equipments are acting better than the general list. Other groups acting better than the market include the automobile accessories, the air transports, the amusements, the buildings, the tractions, the radios, the chain stores and the department stores.

The argument back of the rise in "equipments" is that there is a war-created scarcity of such things as electric devices for civilian use, refrigerators, vacuum cleaners, washers, typewriters, adding machines, cash registers, oil well equipment, railroad cars and locomotives.

Previously this column has mentioned Remington-Rand as a desirable post-war issue. There is bound to be a big deficit in new typewriters after the war. It also may be well to mention L. C. Smith & Corona capital stock, now around 21. The company in which this stock denotes ownership is the fourth largest producer of typewriters; normally it does better in good years and worse in bad years than its competitors. It earned $4.52 a share in the year ended June 30, 1942 and $3.46 a share in the previous 12 months. This year's profits, of course, will be rather sharply lower due to the change-over from typewriters to armament work.

Movies and Gasoline

There is no question but that gasoline restrictions increase movie attendance in the large and medium sized cities. In the small towns, however, limited use of automobiles probably reduces attendance. It is rather well proved that last winter's gasoline stringency did not hurt theater earnings on the whole. Probably this summer's longer and more drastic gasoline shortage won't hurt much either. Suburban and rural movie attendance drops sharply in the summer anyway, and big city and leading center attendance this year probably will decline less than usual. It is doubtful if movie shares should be sold on the gasoline situation.

Railroad Earnings and Wages

Railroad earnings before taxes will be reduced by the increase in wages to non-operating employees. Some of the figures may be quite staggering. It should be remembered, however, that the government will bear a good deal of the higher wage bill through the collection of smaller excess profits taxes. The effect of higher wages on this year's per share earnings of systems like Norfolk & Western, Chesapeake & Ohio, Louisville & Nashville, Atchison and Pennsylvania probably will not be as large on a percentage basis as its effect on the roads which apparently are not subject to high EPT such as Illinois Central, Northern Pacific and Southern Pacific. In other words, the wage increase will hurt the investment rail shares less than the speculative borderline commons.

Gulf Oil Corporation

The Mellon interests are disposing of some of their holdings of Gulf Oil Corporation capital stock, presumably to obtain money to pay taxes or to put their estates in better order for future taxation. This company has been managed by wealthy people for wealthy people, meaning that dividends have been kept low and earnings have been ploughed back into the property. Like Amerada, it is being called a "rich man's stock."

It may be pointed out, however, the company's huge ownership in crude oil reserves in the ground makes the issue one of the best (theoretical) hedges against

(*Please turn to page* 272)

What's New?

Keeping Up with the Industrial Revolution

BY JAMES P. WOOLLEY

Atomic-Hydrogen Arc Welding. General Electric has perfected an atomic-hydrogen arc welding process, the use of which makes a radical saving in time and materials. For instance, use of this process in an Ohio factory making aluminum castings has reduced the rejection rate on repaired castings to less than 1 per cent, in spite of the fact that such castings are subject to rigid inspection by X-ray.

Castings needing repair are pre-heated, metal of the same analysis as the base metal in the casting is deposited by a specially trained operator, and the completed welds are ground flush with the casting surface. In the finished job the weld outline can not be detected either by X-ray or physical test. In this one plant the cost of the investment in this equipment was saved in less than three months.

40-Fold Increase in Plexiglas Output. Built and operated for the Defense Plant Corporation by the old chemical firm of Rohm and Haas, the opening of a new plastics plant at Knoxville, Tenn., will result in quadrupling the previous total output of Plexiglas sheets for bomber noses, gun turrets, astrodomes and other transparent airplane enclosures. As compared with 1939, output of this type plastic —which will have a variety of peace-time uses—has been multiplied 40 times. Not the least interesting thing about this plant is the ingenuity that went into its creation. Seven of its stainless steel storage tanks had formerly been used for transportation of milk or soft drinks; eleven other tanks were acquired from a brewery in Philadelphia. One of the boilers came out of a small fabricating plant near Knoxville, another was taken from a Rohm & Haas plant at Bristol. A quantity of tubing came from the boilers of a dismantled brewery in Illinois. Considering the importance of its output, this plant job probably set a record low in demands on crucial materials and equipment.

War Time, Power and Aluminum. National daylight saving—War Time to you—is incidentally a boon to the millions of sub-urbanites now tending Victory gardens before or after dinner in these evenings when one can no longer jump in the family car and go for a ride. But the original purpose—to save electric power—is much more important. J. A. Krug, director of WPB's Office of War Utilities, recently stated that power saved by War Time is sufficient in kilowatt total to produce a billion pounds of aluminum a year.

Bendix Optical Glass. It's news to us, and probably to you, that Bendix Aviation Corporation makes, among a great variety of other things, optical glass. As a result of the introduction of new mechanical glass-grinding methods in the Hackensack, N. J., optical glass plant operated by Eclipse-Pioneer division of Bendix, previous production time has been cut 90 percent. The company's output of optics is now ten times the pre-Pearl Harbor level.

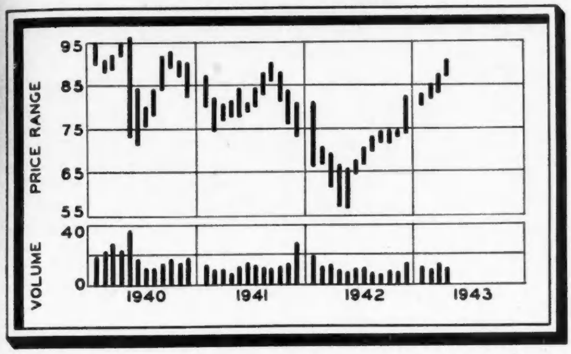
Putting the Century Plant to Use. Personally, we have never been impressed by that botanical curiosity, the Century plant. But now it seems the thing has some practical use. Tough fibers taken from one variety of this plant are being used in brushing wheels made by the Osborn Manufacturing Company to penetrate every recess and cranny of parts for high-speed war-plant mechanisms — polishing and blending the surface, removing scratches and tool marks, etc.

Automobile of the Future. Here are some of the probable changes in post-war automobiles, as seen by du Pont research experts: Sealed cooling systems, ending the nuisance of adding water to radiators; car weights cut in half, saving a half-ton or more of useless load; power output per cubic inch of piston displacement doubled, trebled or even quadrupled; fuels yielding, in the new motors, 40 to 50 miles to a gallon of gasoline; wear-ever connection hoses, gaskets and fan belts made of synthetics; tires that probably will last as long as the car.

New "Miracle" Drug. The latest sensation in medical science is Penicillin, a "miracle" drug demonstrated by clinical test to out-sulpha the famous sulpha-drugs. The drug is produced by the metabolism of a certain type (*Please turn to page* 272)

Six Sound Stocks Offering Good Yields

PENNEY (J. C.) CO.



BUSINESS: The company operates the largest chain of junior department stores with about 1605 stores in practically all states. Locations are mostly in smaller cities with some 50% west of the Mississippi. Most stores feature low to medium priced apparel, drygoods and other merchandise. A few stores, in the larger cities, carry a greater variety and higher quality goods. Sales are for cash only. Stores are mostly under leases varying in length from one to twenty years. The company's outstanding position in its field is the result of a careful and efficient merchandising policy, continued modernization of stores and close control over their profitability.

FINANCIAL POSITION: Finances were consistently strong. Ample working capital is being maintained at all times, aided by excellent earnings which in the past showed great stability. The inventory position, normally a large item in this business, has generally been well controlled. At the end of 1942, cash and Government securities amounted to $94.90 millions, more than offsetting current liabilities of $82.64 millions. Total assets were $176.16 millions against $126.98 millions in 1941. Inventories however declined from $80.33 millions to $57.22 millions, reflecting record sales and difficulties in replenishing merchandise stocks.

OUTLOOK: As the merchandise sold consists largely of textile items, the company has been less vulnerable than most stores to merchandise shortages; these, however, will be increasingly felt in the future. On the other hand, demand prospects continue favorable, reflecting strong buying power in the farm areas and some sales stimulus derived from the curtailed use of automobiles. Price freezing and higher replacement costs may cause somewhat narrower spreads which together with lower sales may moderately reduce near-term operating profits. Over the longer term, results are largely dependent on the level of consumer income outside of the major metropolitan areas; however, the non-luxury nature of the merchandise sold tends to establish a greater degree of stability than in the case of most department store chains.

MARKET ACTION: Reflecting unusual stability of earnings and dividends, the stock, on the whole, displayed far less than average volatility. At present, it is only 57% above its 1942 low while our Index rose 105%. Similarly, it is 14% below its 1937 high while our Index is 30% below that point.

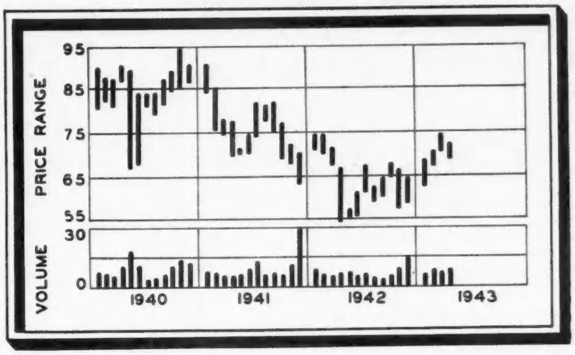
COMMENT: Recent price—89. The regular $3.00 dividend is safe but the year end extra may not equal the $2.00 paid in 1942. Nonetheless, the stock, currently yielding 5%, has distinct merit on the basis of bright long-term prospects and remarkable stability of earning power.

Long-Term Record

Year	Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$212.05	$16.147	$6.29	$4.40	74¼-51½
1935	225.93	15.373	6.08	3.75	84¾-57¼
1936	258.32	18.712	7.36	7.25	112½-69
1937	275.37	16.575	6.52	5.50	103¾-57½
1938	257.96	13.739	5.40	4.25	85½-55
1939	282.13	16.481	6.48	5.00	94¾-74
1940	304.53	16.230	5.91	5.00	96½-71
1941	377.57	17.128	6.24	5.00	89¼-66
1942	490.29	18.058	6.58	5.00	82 -56½

Thumbnail Stock Appraisal

INLAND STEEL CO.



BUSINESS: This integrated steel unit is the second largest steel maker in the Chicago area and the seventh largest in the country. Operations are concentrated at a single plant with an annual ingot capacity of 3.35 million tons. Two new blast furnaces are under construction which, when completed, will raise capacity by some 50,000 to 100,000 tons. The company also will operate, upon completion, a new Government-owned pig iron plant at East Chicago with an annual capacity of 900,000 tons. Coal and ore needs come largely from owned reserves; ore reserves are held ample for twenty years. The concern makes a full line of steel products except wire. About 60% of normal output consists of sheets, strip, bars and tin plate; the remainder are steel plates and structurals which at present, however, make up a preponderant part of output.

FINANCIAL POSITION: Finances have always been in excellent shape, thanks to consistently good earnings and a reasonable dividend policy. Total assets since 1934 rose $74.30 millions and at present stand at $179.93 millions. Working capital amounts to $55.89 millions whereof $24.95 millions are cash and more than covering current liabilities of $19.97 millions. Funded debt amounts to $37.36 millions, considerably less than working capital.

OUTLOOK: Operations should hold near capacity over the nearer term and output will continue to run heavily towards ship plates and other semi-finisheds. First quarter net was $1.71 per share against $1.65 last year. First semester profits should come close to $3.00 per share including indicated post-war credit of fifty cents and after moderately large contingency reserves. As to post-war prospects, this compact, low-cost producer will probably fare better than the average steel maker though operating results are likely to swing over a wide range, governed essentially by the general business cycle. Over the longer term, the company should be able to increase somewhat further its proportion of available business, extending the pre-war trend. As an important supplier of consumers durable goods industries, the concern should benefit materially from the expected post-war boom in this field.

MARKET ACTION: The stock, on the whole, fluctuated fairly closely in line with the general business cycle prior to the war. Since then, movements were narrower, reflecting steadily expanding business and earnings. In common with most steels, the stock during the current bull market lagged behind the market, having risen only 29% above its 1942 low.

COMMENT: Recent price—67⅞. In view of the better than average long-term outlook, the common, yielding about 6%, looks particularly attractive. It is still selling below equity of $72.74 per share. The strong financial position is further enhanced by a six million dollar reserve for contingencies, set aside from 1941-42 earnings. The stock has long been regarded one of the soundest steel equities.

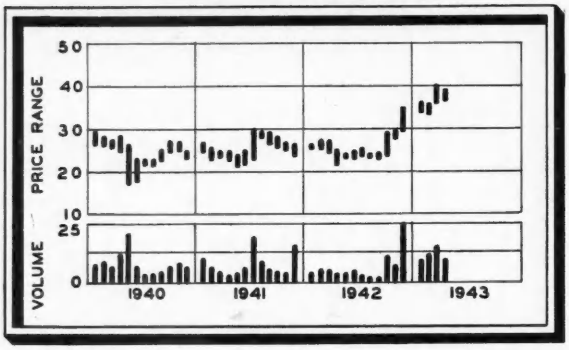
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$40.404	$3.729	$3.11	$0.50	56 -34¼
1935	62.544	9.417	6.54	2.25	108 -46½
1936	98.903	12.800	8.54	4.50	122 -88⅝
1937	110.744	12.665	8.05	5.00	131¼-58¾
1938	74.058	4.916	3.12	2.50	95 -56¼
1939	115.346	10.931	6.74	4.00	98¾-67
1940	142.173	14.450	8.87	5.00	94 -66½
1941	202.755	14.824	9.08	5.00	90½-63
1942	189.612	10.721	6.57	4.50	74½-54

Thumbnail Stock Appraisal

Six Sound Stocks Offering Good Yields

INDUSTRIAL RAYON CORP.



BUSINESS: This is the country's third largest rayon unit and the second largest producer of viscose yarn with an estimated plant capacity of 38 million pounds. Normally, two-thirds of the output goes to the weaving trade, notably apparel makers and converters of dress fabrics. Of the remaining third, the major portion—chiefly knitting yarns—is being used in the company's knitting division. The Painesville, Ohio, plant where the continuous spinning method is employed, is reputed to be the lowest-cost unit of the industry; its capacity in 1941 was increased by 50%. At present, all facilities, consisting of three large plants, are working at capacity with an increasing percentage of output pre-empted by the Armed Forces. The Cleveland plant has been converted for the manufacture of tire cord yarns, a field which the company expects to cultivate in the post-war era. Currently, the entire ouput goes into Army tires.

FINANCIAL POSITION: A strong working capital position, featured by substantial cash holdings, has been constantly maintained. Past expansion was financed by the sale of common stock and a bond issue of $7.50 millions; the latter was retired in 1940 with the proceeds of bank loans and available cash. Profit margins latterly have been narrowing as a larger proportion of shipments consisted of lower priced deniers to fill Government orders; this trend is expected to continue in 1943 but may be balanced by efforts of the management to establish additional tax credits and recover part of the taxes paid in 1941-42.

OUTLOOK: 1943 earnings are expected to come close to $2.25 per share, including post-war credit, and may be somewhat higher if the company is successful in its efforts to obtain tax-relief. Capacity operations are assured for the duration with military and civilian demands continuing high. Despite marked expansion in the past, growth prospects remain an important factor in the longer term outlook. Yarn sales for textile purposes are expected to expand with rising peace-time demand but in the future may fluctuate increasingly with the cyclical swings of the textile industry.

MARKET ACTION: The stock in the past displayed about average volatility, with the cyclical nature of the textile business apparently balanced by the steadily expanding demand for rayon yarns at the expense of cotton and silk. Since 1939, volatility was rather below average. Currently, the stock is some 80% above the 1942 low and 20% below the 1937 high while our Index is 105% above and 30% below, respectively.

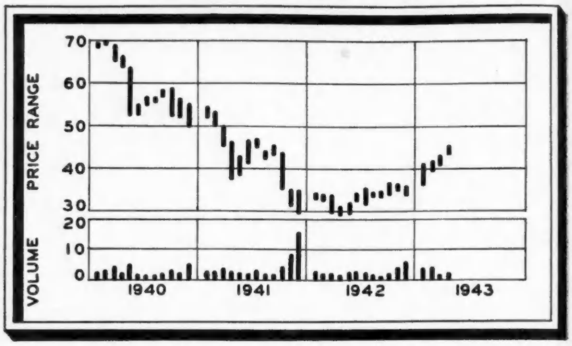
COMMENT: Recent price—37¾. In view of inherent long-term potentialities, the stock, yielding 6.5%, should have market possibilities. No change in dividends is foreseen.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$7.925	$1.412	$2.35	$1.26	32¼-19⅜
1935	8.053	0.686	1.13	1.26	36⅜-23½
1936	10.136	1.396	2.30	2.10	41⅜-25⅝
1937	4.824	0.262	0.35	2.00	47½-15
1938	6.727	0.184	0.24	0.25	30⅜-14⅜
1939	12.264	1.348	1.78	0.75	29½-16¾
1940	14.663	2.392	3.15	2.00	29 -16⅜
1941	19.152	2.311	3.04	2.50	29⅞-20¾
1942	20.731	2.006	2.64	2.50	35 -21

Thumbnail Stock Appraisal

AMERICAN SNUFF CO.



BUSINESS: The company, engaged solely in the manufacture of snuff, is the country's second largest producer with an annual output of eleven million pounds, sold under the principal brand names "Garrett," "Honest" and "Dental." These products are distributed almost exclusively in the South. The company's plants and warehouses are located in Kentucky and Tennessee. Among the firm's assets are securities with a market value of some $4.89 millions, equal to 21.73% of gross assets as of Dec. 31, 1942. Dividends and interests received on this investment in 1942 contributed about 14% of net income.

FINANCIAL POSITION: The company's finances have been consistently strong. Working capital in recent years remained stable as the firm had practically no financial requirements and all earnings were distributed to stockholders. At the close of last year, net working capital amounted to $13.38 millions including $1.41 million cash which almost equalled current liabilities of $1.47 millions. Total assets were $22.52 millions and equity per common $21.73, about half the current market price of the stock.

OUTLOOK: The snuff habit, once the accepted vehicle of genteel masculine indulgence, still persists in the back streets of demand, long after its social popularity has vanished. In fact, unusual stability of demand is the industry's main characteristic. Advertising is not an important cost item as the habitual users of snuff have more or less stabilized brand preferences. This leaves taxes and variations in leaf tobacco costs and in revenue from investments the principal profit determinants. Sales in 1943, however, may not equal last year's. Due to war-time restrictions, distribution facilities are hampered which will tend to slow up sales. Also, labor and raw material costs are rising which will further affect margins, already narrowing. Hence 1943 net will probably be moderately below last year's. Because of the company's strong treasury position, however, dividends will probably continue to exceed earnings. Over the longer term, sales are not expected to change materially.

MARKET ACTION: Reflecting the remarkable stability of demand and earnings, the stock has displayed considerably less than average volatility. During the current movement, the stock has been lagging behind the market, being at present only 46% above its 1942 low while our Combined Index rose 105%. Similarly, the stock is 37% below its 1937 high while our Index is 30% below that point.

COMMENT: Recent price—42½. Yielding about 6%, the stock has attraction on a semi-investment basis. The unusual resistance of the business to depression influences have long made the stock an investor's favorite.

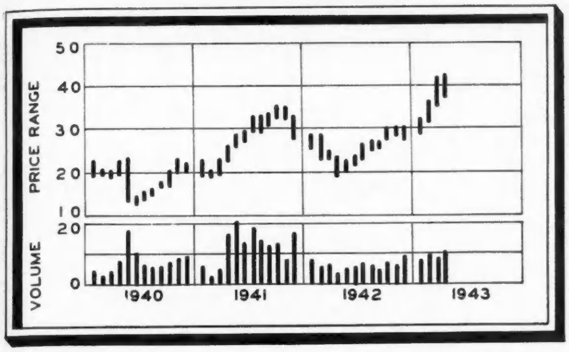
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	....	$1.972	$4.06	$3.25	71 -48¾
1935	$7.710	1.641	3.29	3.25	76 -63
1936	7.695	1.655	3.32	3.25	73½-57½
1937	7.701	1.572	3.13	3.25	67½-46
1938	7.973	1.654	3.32	3.25	61¾-45¾
1939	7.963	1.536	3.03	3.25	69 -59½
1940	7.993	1.376	2.67	3.25	70 -49½
1941	8.316	1.374	2.64	3.25	54 -29⅜
1942	9.293	1.226	2.29	2.80	36¼-29

Thumbnail Stock Appraisal

Six Sound Stocks Offering Good Yields

SKELLY OIL COMPANY



BUSINESS: This relatively small but well integrated petroleum unit distributes refined petroleum products, principally gasoline, fuel and road oil through numerous independent outlets thoughout the mid-continent territory and the southwestern states. Its producing properties are located in Kansas, Oklahoma, Texas, Arkansas, Louisiana and New Mexico with the greater part of crude oil production originating in Oklahoma and Texas. A 14% interest in the Great Lakes Pipe Line permits economical distribution of gasoline to the Upper Mississippi valley. Crude oil production in 1941 was 9.82 million barrels, well in excess of the refinery run for that year of 8.93 million barrels. The company's large and up-to-date refinery assures better than average gasoline yields. The firm's fully-owned subsidiary, Spartan Aircraft Co., a maker of training planes, is heavily occupied with war orders and in recent years has been the source of good earnings.

FINANCIAL POSITION: Working capital is not large but adequate, amounting to $11.86 millions at the end of last year. The company in 1940 issued 3% debentures and serial bank notes to provide funds for the retirement of outstanding preferred stock and the redemption of 4% bonds due in 1951. Funded debt currently amounts to $13.6 millions. Earnings in the past were consistently good but dividends rather conservative to maintain working capital. The company's accounting practice, liberal prior to 1939, now conforms to industry policy.

OUTLOOK: Sales and earnings are expected to continue high for the duration. The effect of gasoline rationing is largely offset by expanding sales of other products, notably aviation gasoline compounds. Margins should remain satisfactory as prices are well maintained and costs well controlled. Since crude output is in excess of refinery requirements, future earnings will depend primarily on the trend of prices for crude and refined products, without regard to the spread between them. Aided by economies resulting from refinery modernization and improved drilling technique, the company is in a good competitive position and should participate fully in post-war possibilities. In spite of favorable earnings prospects, dividend policy is expected to continue conservative.

MARKET ACTION: The common in the past displayed about average volatility. At present, it is slightly ahead of the market, having risen 109% above its 1942 low, compared with a rise of our Index of 105%. At the same time, the stock is about 33% below its 1937 high while our Index is 30% below that point.

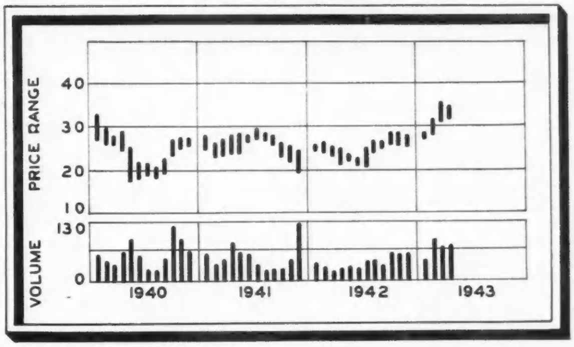
COMMENT: Recent price—40½. Despite the probability of continued conservative dividend policy, the stock, yielding about 5%, has definite appeal at current market levels which are considerably below equity per share of $52.70. The possibility of higher crude prices—foreseen by many—is an added incentive.

Long-Term Record

Year	Gross Optg. Revenue (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$24.616	$0.713	$0.31	Nil	11½- 6
1935	29.326	2.585	2.17	Nil	20½- 6½
1936	35.748	4.850	4.42	Nil	47⅜-19½
1937	41.483	6.488	6.07	1.50	60⅝-26½
1938	35.880	2.650	2.27	1.00	34¾-18½
1939	33.107	2.360	1.99	0.75	29½-15½
1940	34.570	3.316	3.28	1.25	23¼-12¼
1941	46.194	5.913	6.03	1.50	35¼-18⅞
1942	46.008	5.632	5.74	1.25	30¼-19⅜

Thumbnail Stock Appraisal

PULLMAN INC.



BUSINESS: This is a holding company, virtually owning outright the Pullman Co. which operates sleeping and other de luxe passenger cars of which 7,048 were owned at the end of 1941. Of these, about 5,300 were in operation. The wholly-owned Pullman-Standard Car Mfg. Co. is the world's largest railway car builder. Its ten plants have an annual capacity of 76,000 freight cars, 2,200 passenger cars, 200,000 car wheels and 49,000 tons forgings. For the war, the shops have been adapted to make tanks, shells, mortars, gun mounts and other ordnance items; also airplane wing assemblies with much of the parts work sub-contracted. Small ship units for the Navy were recently added to war production. Currently, unfilled orders equal thrice the 1942 manufacturing output of $197 millions whereof $132 millions represented ordnance items.

FINANCIAL POSITION: An impressive financial status was consistently preserved by the concern with cash and Government securities generally comfortably in excess of current liabilities. Due to higher capital requirements to handle the tremendous war business, this ratio at present is no longer maintained. However, cash and Government securities total $42.92 millions against current liabilities of $56.16 millions, still a very ample coverage. Working capital at the end of 1942 was $87.36 millions and total assets $282.07 millions against $233.76 in 1941.

OUTLOOK: Higher gross operating income appears assured this year but net may fall below the $3.14 per share in 1942 reflecting the increasing percentage of low-margin ordnance business. The tax carry-over available in 1942 will be absent this year but the effect on income may be small if reserves are reduced. The company has set aside substantial reserves for contingencies and reconversion from 1941-42 earnings, hence similar charges against 1943 earnings may well be smaller. In the immediate post-war period, heavy replacement demand by the railroads should permit continued high operations at substantially better margins. While the length of this expected "equipment boom" will primarily depend on the "comeback" plans of the railroad industry, it should be quite profitable and of fair duration. Beyond that, the outlook appears to depend largely on the development of future competition between the various transportation media.

MARKET ACTION: In the past, the stock showed more than average volatility, reflecting the highly cyclical character of the company's business. However, fluctuations have narrowed since the war with the stock rather behind the market.

COMMENT: Recent price—35¾. Selling considerably below its equity of $58.92 per share, the stock, yielding about 8%, appears to have considerable merit. The $3.00 dividend is expected to be continued this year.

Long-Term Record

Year	Total Optg. Income (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$13.883	$2.957	$0.77	$3.00	59⅜-35⅜
1935	11.772	D 0.273	D 0.07	2.62	52⅞-29½
1936	21.371	6.347	1.66	1.50	69⅞-36⅞
1937	26.892	12.275	3.21	2.75	72⅛-25½
1938	15.185	2.295	0.60	1.37	39½-21⅝
1939	15.504	4.009	1.05	1.00	41⅞-22½
1940	21.695	7.484	1.96	1.50	32¼-16⅞
1941	28.674	10.918	3.31	2.50	29¼-19¾
1942	60.997	10.361	3.14	3.00	28⅝-20¾

D—Deficit.

Thumbnail Stock Appraisal

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities.***
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.**

Special rates upon request for those requiring additional service.

Budd Mfg. Pfd. Exchange

A short time ago I bought some shares of the Budd Mfg. Co. preferred at $65 a share. I see that the management are now about to offer two shares of a new 5% prior preferred stock for each share of the old 7% stock. Do you advise taking advantage of their offer, or of selling the stock on the market. The last quotation is around $114.—R. E. W., Los Angeles, Calif.

E. G. Budd Manufacturing Company earned $63.87 on its preferred stock in 1942 as compared with $17.81 in 1941. This stock has moved up from a low of 76¼ to a high of 116½, last 110. The company's offer of two new shares of $5.00 preferred stock for one share of the old preferred stock to take care of the arrears, in our opinion, should be accepted. However, if you desire to accept your nice profits in this stock and reinvest your funds in a better grade preferred, we would suggest Remington Rand $4.50 preferred stock selling at 76 and callable at 100. This company for the pre-war years of 1936 to 1939, inclusive, showed average earnings on its preferred stock of $17.79. In 1942, it showed $23.05 per share and for the first nine months of the fiscal year ending March 31, 1943, showed $17.98 per share.

Budd Manufacturing Company earnings in the past have been erratic whereas you will note from the foregoing figures that Remington Rand earnings have been stable.

Wilson & Co.

As a subscriber to your magazine, I am requesting information on the present position of Wilson Company common stock which I hold in the amount of 500 shares at an average price of around 7. Please cover the possibilities of appreciation, the probability of clearing up the small arrearages on the preferred stock, financial position and the near term and post-war outlook.—F. H. K., Kewanee, Ill.

Wilson & Company is the fourth largest meat packing company. In 1942, it earned $2.70 on the common stock as compared with $2.56 in 1941. Earnings on the $6.00 preferred stock have averaged $22.00 per share for the past two years. Arrears on the preferred stock now amount to $3.00 per share and with such substantial earnings, company should be able to pay off these arrears before the end of 1943.

The company's financial position is strong, latest available balance sheet showing net current assets of $43,800,000. The price range of the common stock on the New York Stock Exchange this year has been: high 8; low 4¼; last 6⅞. Selling on a favorable price to earnings ratio of less than 3 to 1, we consider this stock as reasonably priced with possibilities of further enhancement in market value.

United Engineering and Foundry

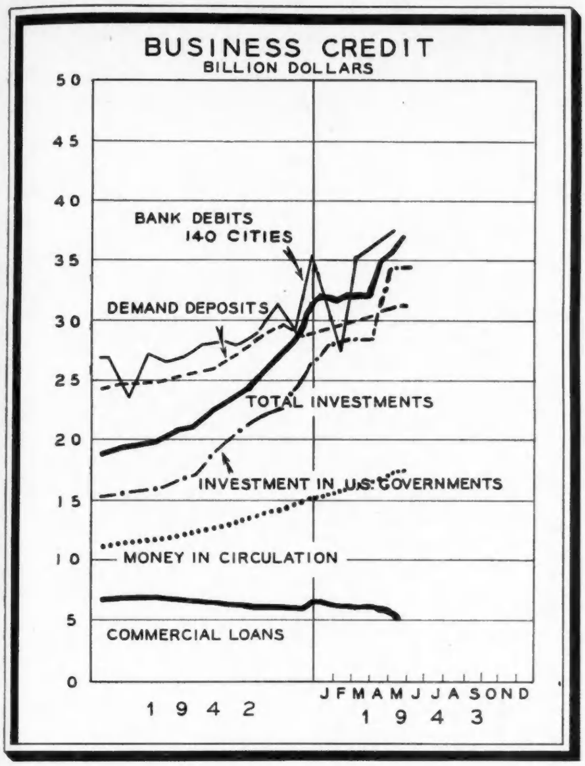
Please advise me as to your opinion of the current and post-war prospects of United Engineering and Foundry. I have 200 shares at an average of 33 and contemplate selling them. It seems to me that the company is vulnerable to high taxes and poor prospects for its usual business of building steel mill equipment. As the company has had such an excellent past record I feel it best to get additional information, if possible, before disposing of it.—A. M. K. S., Trenton, N. J.

United Engineering and Foundry Company was incorporated in 1901. It has no subsidiaries and is purely an operating company. It produces heavy machinery for the production of metal products. Mills constructed by the company are extensively used in the steel industry and the company is a leading manufacturer of the new type of continuous rolling mills for the manufacture of sheet strip steel.

The company earned $3.71 per share in 1942 as compared with $3.96 in 1941. The lowest this company earned in the years 1936 to 1939, inclusive, was $2.54 and the high $4.86 per share. The price range this year has been: high 35; low 26½; last 33½. It paid $2.25 in 1942 and has paid dividends continuously for the past 41 years.

Balance sheet dated December 31, 1942, showed total current assets of $21,439,329, as compared with total current liabilities of $14,210,817 and net current assets of $7,228,512, or a little over $900,000 more than shown at the end of 1941. Cash increased from $4,052,387 to $7,026,551 on December 31, 1942, but accrued taxes amounted to

(*Please turn to page* 260)



CONCLUSIONS

MONEY AND CREDIT — Post-war restoration and maintenance of economic stability calls for our cooperation in keeping international currency in circulation.

TRADE—Retail sales continue to hold well above last year, despite growing shortages and falling inventories.

INDUSTRY — First quarter dividends only 1.5% below last year. Munitions profits to be smaller this year.

COMMODITIES—Owing to better inflation control abroad, prices of imported commodities have advanced less than half as fast as domestic since Pearl Harbor.

The Business Analyst

Under the leadership of Bank Debits, Electric Power Output and Paperboard Production per capita **business activity** has risen nearly a point during the past fortnight, to a new all-time high. Average for the month of May was about 131.2, compared with 130.1 in April and 127.6 a year ago. Without compensation for population growth, this publication's index of Business Activity rose a point during May, to 158% of the 1923-5 average—a level 4.3% higher than a year earlier.

* * *

Coordination of Washington's many independent, though interlocking, war bureaus through the new Office of War Mobilization headed by Judge Byrnes may help some in winning "the War of Washington"; but will not beat the **inflation** foe if Judge Byrnes is correctly reported as saying that price and wage regulation still remain outside his jurisdiction.

* * *

The line that the President wanted held has just been breached again by compromise wage increases to soft coal miners and members of the independent rail unions. As this is written, Lewis has expressed contempt for the WLB recommendations by ordering the subjects of his mining kingdom to go out on strike. OPA is further hampered by Congressional refusal

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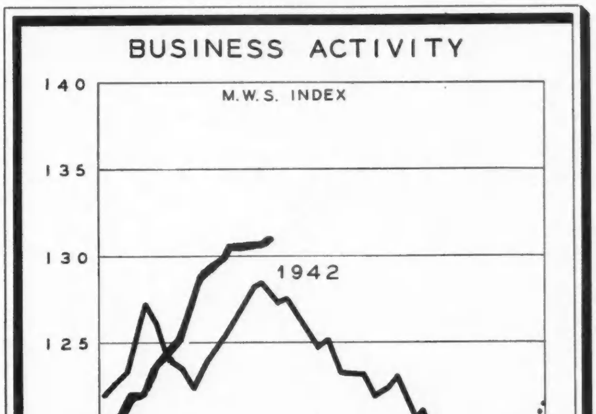


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	May	7.4	7.3	3.8	1.5
Cumulative from mid-1940	May	102.4	95.0	30.5	13.9
FEDERAL GROSS DEBT, End of Month—$b	May	135.9	129.8	68.6	55.1
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	May 26	31.2	30.7	25.5	24.3
Currency in Circulation	May 26	16.9	16.8	12.0	10.7
BANK DEBITS ($b) 101 Cities	May 26	11.6	12.3	9.4	10.4
New York City	May 26	4.9	5.2	3.8	4.3
INCOME PAYMENTS—$b (cd)	Mar.	11.21	10.44	8.80	8.11
Salaries & Wages (cd)	Mar.	7.91	7.75	6.00	5.56
Interest & Dividends (cd)	Mar.	0.91	0.44	0.55	0.55
Farm Marketing Income (ag)	Mar.	1.30	1.13	0.90	1.21
Includ'g Govt. Payments (ag)	Mar.	1.39	1.21	0.98	1.28
CIVILIAN EMPLOYMENT (cb) m	Apr.	51.2	51.0	50.7	50.2
Agricultural Employment	Apr.	9.6	9.0	9.3	9.0
Employees, Manufacturing	Apr.	16.0	16.0	14.0	13.6
Employees, Government	Apr.	5.9	5.9	4.9	4.5
UNEMPLOYMENT (cb) m	Apr.	0.9	1.0	3.0	3.9
FACTORY EMPLOYMENT (lb4)	Apr.	167	167	146	141
Durable Goods	Apr.	225	224	180	168
Non-Durable Goods	Apr.	122	123	120	120
FACTORY PAYROLLS (lb4)	Mar.	304	297	215	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Mar.	44.8	44.5	42.7	40.3
Hourly Wage (cents)	Mar.	93.4	92.4	81.1	78.1
Weekly Wage ($)	Mar.	41.84	41.12	34.62	32.79
PRICES—Wholesale (lb2)	May 22	103.8	103.8	98.7	92.2
Retail (fi)	Apr.	113.2	113.2	113.4	107.5
COST OF LIVING (lb3)	Apr.	124.1	122.8	115.1	110.2
Food	Apr.	140.6	137.4	119.6	113.1
Clothing	Apr.	127.8	127.6	126.5	113.8
Rent	Apr.	108.0	108.0	109.2	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	Apr.	5.19	5.08	4.59	4.57
Durable Goods	Mar.	0.82	0.66	0.80	1.07
Non-Durable Goods	Mar.	4.23	3.89	3.76	3.47
Chain Store Sales (ca)	Apr.	175	180	164	151
Dept.. Store Sales (rb) (1)	Apr.	128	136	117	116
Dept. Store Stocks (rb2)	Apr.	86	90	118	95
COMMERCIAL FAILURES (db)	Apr.	362	410	938	842
MANUFACTURERS'					
New Orders (cd2)—Total	Mar.	288	275	274	212
Durable Goods	Mar.	440	405	427	265
Non-Durable Goods	Mar.	191	191	176	178
Shipments (cd3)—Total	Mar.	249	255	199	183
Durable Goods	Mar.	328	337	235	220
Non-Durable Goods	Mar.	186	192	171	155
Inventories, end Month (cd3)	Mar.	175	176	166	153
Durable Goods	Mar.	210	209	183	170
Non-Durable Goods	Mar.	144	146	150	137

PRESENT POSITION AND OUTLOOK

(Continued from page 253)

to sanction subsidies for implementing that Bureau's price roll-back program.

* * *

The **railroad wage increase** just recommended will, if granted, take about $80 million annually from profits after taxes on the basis of present traffic. Including recent rate reductions, annual cut in profits would total $160 million.

* * *

War Department's Price Adjustment Board predicts that **munitions profits** will be smaller this year than last, partly because contract renegotiators are getting tougher and partly because it will be possible to set closer prices on new contracts now that costs are becoming more stabilized. Investors will do well to note that earnings as currently reported are computed in a number of instances before renegotiation of contracts. The War Department announces that **utilities and common carriers** have been granted exemption from contract renegotiation; because their profits can be predetermined with reasonable certainty when contracts are placed.

* * *

WPB vice chairman Wilson says **war production** must speed up for remainder of the year to make up for falling short of a perhaps too high a goal in the first quarter. The Army states that, while changing conditions will necessitate many readjustments, there will be no overall reduction in war production either this year or next. Russia, for example, has recently canceled her order for tanks and cars and asked for **railroad equipment.** American Locomotive and Baldwin are being taken out of tank production and put back to engine building.

* * *

Plans are already being laid by the WPB for **shifting output to civilian goods** before the war ends so that the U. S. may carry through into peacetime with no "substantial" sag in production. A small beginning in returning to peacetime output may be feasible when the armed forces have completed their "capital equipment." Further reconversion should be possible when Hitler's gang is licked. Then large scale return to peacetime activities after cleaning up the Pacific.

* * *

Skeptics will ask: "How big is a 'substantial' sag?" Prior to World War I a decline of 10% in overall business activity was classed as a major depression; but the 1929-32 nose dive made former business cycles look like small change. We question if it is either possible or desirable to maintain production indefinitely at its present forced level. The above outlined WPB planning tacitly recognizes that some part of present production is for capital equipment needed to place us on a war footing. Production of capital equipment is an even larger factor in peacetime boom years. Once com-

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	May 22	131.3	130.9	127.0	118.2
(M. W. S.)—I—np	May 22	157.8	157.5	150.6	139.5
INDUSTRIAL PRODUCTION (rb3)	Apr.	203	202	173	167
Durable Goods, Mfr.	Apr.	300	298	234	215
Non-Durable Goods, Mfr.	Apr.	148	147	139	141
STEEL INGOT PRODUCTION (st)m	Apr.	7.37	7.67	7.12	6.96
Cumulative from Jan. 1	Apr.	29.29	21.92	28.14	55.69
ELEC. POWER OUTPUT (K. W. H.)m	May 29	3,990	3,992	3,323	3,369
ENGINEERING CONSTRUCTION AWARDS (en) $m	May 27	46.5	63.9	163.2	93.5
Cumulative from Jan. 1	May 27	1,492	1,445	3,773	5,692
PETROLEUM—bbls. m					
Crude Output Daily	May 29	3.97	4.01	3.88	4.11
Gasoline Stocks	May 29	83.94	85.33	95.28	87.84
Fuel Oil Stocks	May 29	67.72	67.75	79.69	94.13
Heating Oil Stocks	May 29	32.27	32.19	30.39	54.85
CARLOADINGS—t	May 22	843	849	838	833
Grain	May 22	43	43	34	43
Coal	May 22	167	176	166	150
Manufacturing & Miscellaneous	May 22	381	383	377	379
Mdse., L. C. L.	May 22	97	97	96	156
Ore	May 22	84	77	87	36
GENERAL					
Bituminous Coal Prod. (st)m	May 22	11.57	12.30	11.27	10.80
Lumber Production (bd. ft.)m	May 22	651	645	699	632
Paperboard, New Orders (st) t	May 29	121	114	91	132
Cigarette Production—b	Apr.	19.43	20.61	17.38	17.14
Portland Cement Shipments (bbls.) m	May	10.11	8.66	12.56	13.72

PRESENT POSITION AND OUTLOOK

pleted there is an inevitable let down unless the void is filled by Government made work. This means more deficit spending to which there must come an end. Any attempt, such as President Hoover made in 1931, to abort natural readjustments effected by the business cycle can only end eventually in a worse debacle.

* * *

Clarifying the workings of his proposed International **Credit Union,** Lord Keynes, in recent remarks before the House of Lords, pointed out that "the world's trading difficulties in the past have not always been due to the improvidence of debtor countries. They may be caused in an acute form if a creditor country is constantly withdrawing international money from circulation and hoarding it instead of putting it back into circulation, thus refusing to spend its income from abroad either on goods for home consumption or on investment overseas." Will we, now the chief creditor nation, heed this warning or revert to a disruptive post-war policy of isolation?

* * *

First quarter **dividends** on 458 common stocks listed on the N. Y. S. E. were only 1.5% below last year.

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. db—Dun & Bradstreet's. en—Engineering News-Record. fi—Fairchild Index, end of Mo., Dec. 31, 1930—100. I—Seasonally Adjusted Index, 1923-5—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m—Millions. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—End of Mo., Federal Reserve Board, seasonally adjusted index, 1923-5—100. rb3—Federal Reserve Board, seasonally adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

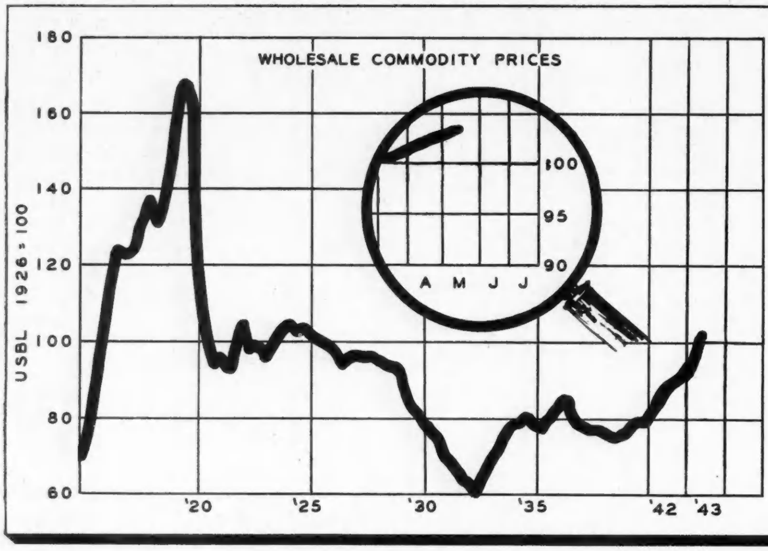
No. of Issues (1925 Close—100)	1943 Indexes High	Low	May 29	June 5
273 COMBINED AVERAGE	89.9	54.5	88.9	89.9F
3 Agricultural Implements	144.7	105.2	136.8	144.7F
9 Aircraft (1927 Cl.—100)	179.2	131.8	176.9	171.1
5 Air Lines (1934 Cl.—100)	491.9	363.1	484.7	491.9Z
5 Amusement	75.9	40.2	75.9N	75.2
12 Automobile Accessories	142.1	83.0	138.5	142.1F
13 Automobiles	21.0	9.7	20.4	21.0F
3 Baking (1926 Cl.—100)	15.0	8.5	14.9	15.0D
3 Business Machines	197.1	129.4	185.8	197.1E
2 Bus Lines (1926 Cl.—100)	96.6	54.9	92.0	91.4
5 Chemicals	189.5	153.5	189.5F	186.1
13 Construction	38.0	23.3	36.3	38.0D
5 Containers	236.1	177.1	232.0	236.0
8 Copper & Brass	82.8	63.6	81.1	79.6
2 Dairy Products	39.3	29.7	39.3F	38.2
6 Department Stores	27.7	15.4	26.8	27.7F..
5 Drugs & Toilet Articles	88.3	50.9	87.2	88.3F
2 Finance Companies	237.3	152.6	220.9	237.3C
6 Food Brands	124.7	85.5	121.5	124.7Q
2 Food Stores	45.1	37.7	43.5	45.1B
4 Furniture	58.3	35.0	57.6	58.3D
3 Gold Mining	912.6	610.3	877.2	879.1
6 Investment Trusts	39.1	22.7	38.8	38.5

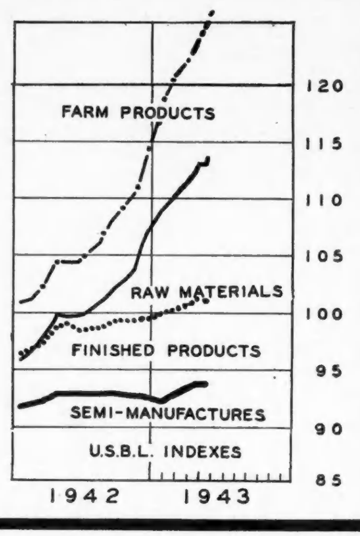
(Nov. 14, 1936, Cl.—100)	High	Low	May 29	June 5
100 HIGH PRICED STOCKS	66.31	52.87	65.73	66.31C
100 LOW PRICED STOCKS	87.49	43.61	86.23	87.49F
3 Liquor (1932 Cl.—100)	289.2	197.1	282.2	284.5
8 Machinery	109.6	82.6	108.9	109.6B
2 Mail Order	83.1	61.8	82.1	83.1C
3 Meat Packing	56.7	34.9	53.5	56.7C
10 Metals, non-Ferrous	155.7	106.8	155.7C	149.6
3 Paper	13.5	9.0	12.7	13.5B
21 Petroleum	132.3	86.9	132.3F	132.3
18 Public Utilities	58.1	23.2	56.8	58.1D
3 Radio (1927 Cl.—100)	25.9	12.1	25.9F	25.6
7 Railroad Equipment	57.4	32.1	57.4D	56.3
17 Railroads	18.6	9.8	18.6	18.2
2 Shipbuilding	106.1	83.4	96.1	95.2
3 Soft Drinks	288.8	197.8	285.2	288.8F
12 Steel & Iron	76.2	57.6	76.0	76.2B
2 Sugar	45.7	32.2	44.2	45.7Q
2 Sulphur	193.2	180.2	193.2B	192.5
3 Telephone & Telegraph	111.5	67.0	111.5N	107.9
3 Textiles	54.7	33.7	53.2	54.7C
3 Tires & Rubber	26.5	16.5	26.5F	26.2
4 Tobacco	67.3	52.2	64.0	67.3B
2 Variety Stores	230.7	182.4	229.1	230.7C
20 Unclassified (1942 Cl.—100)	190.0	100.0	184.8	190.0A

New HIGH since: A—1942; B—1941; C—1940; D—1939; E—1938; F—1937; N—1931; Q—1929. Z—New all-time HIGH.

Trend of Commodities

Hoping that Congress will do something nice for cotton, futures have exhibited considerable strength since our last issue; but the few grains that still remain unpegged have been somewhat reactionary—possibly due to growing optimism over war progress. The CCC has nearly finished sales of the 225 million bushels of wheat authorized by Congress and is buying as much from Canada as can be transported, in an effort to relieve the serious food shortage in New England and eastern seaboard states. In addition to our tabulation of 28 basic commodity prices a column showing levels as of Dec. 6, 1941, our readers will have two important benchmarks from which to measure longer range price movements; because the indexes, please note, are based upon the pre-war month, August, 1939, at 100. The largest rise, for example, has been in the average price level of 7 domestic agricultural commodities—64% up to Pearl Harbor, and an additional 44% since then. The smallest rise has been in industrial raw materials, a field in which price control has been least hampered by political expediency. Prior to Pearl Harbor, imported and domestic commodities rose about equally—as they should in a free economy; but since then domestic prices have advanced more than twice as fast as imported items.

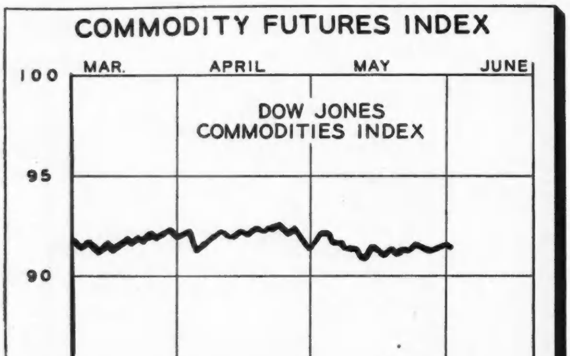




U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

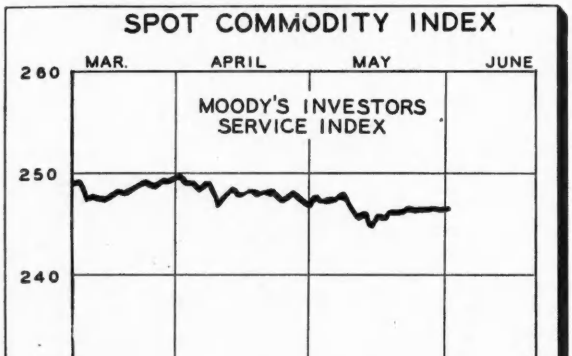
Spot Market Prices—August, 1939, equals 100

	Date June 2	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	176.3	176.2	176.2	176.6	170.4	165.9	156.9
11 Import Commodities	167.3	168.2	167.8	166.8	162.2	160.9	157.5
17 Domestic Commodities	182.4	182.0	182.2	183.2	175.9	169.3	156.6
7 Domestic Agricultural	208.0	207.3	207.9	207.7	187.9	181.5	163.9
12 Foodstuffs	200.8	200.4	200.8	202.3	192.9	185.4	169.2
16 Raw Industrials	159.7	160.2	159.7	159.7	155.1	152.5	148.2



Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	92.16	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.59	45.03	52.03



15 Commodities, December 31, 1931, equal 100

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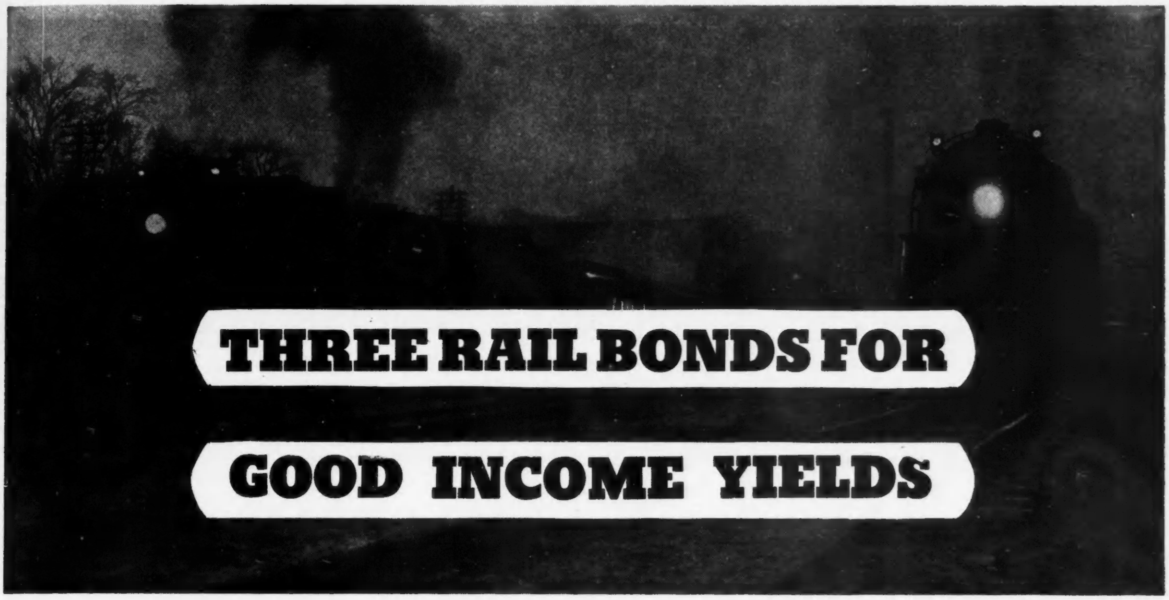
	1943	1942	1941	1940	1939	1938	1937
High	246.8	239.9	219.9	171.8	172.3	152.9	228.1
Low	240.2	220.0	171.6	149.3	138.4	130.1	144.6



THREE RAIL BONDS FOR GOOD INCOME YIELDS

Nesmith

BY FRANK R. WALTERS

DESPITE the recent rise in rail bonds, investors can still obtain generous yields with sound income protection. The railroads have now been able to accumulate a substantial amount of cash with which to tide themselves over any post-war letdown, and the present high rate of earnings would permit both an upward adjustment of wages and downward adjustment of rates, should both prove necessary—which seems unlikely. Due to their heavy investment in property account, the rails have been more or less protected against the burden of high Federal taxes. With most industrial and utility bonds selling at very high levels, the best bargains still appear in the rail list. Three issues in the medium grade field merit special attention.

Northern Pacific used to be classed among the "border line" roads because fixed charges were earned with a relatively small margin of safety during the 1930's. However, the road maintained a comfortable cash position and at last year-end it had built up its cash to over $51,000,000 as compared with current liabilities of about $32,000,000; and net current assets exceeded $44,000,000. Most of the company's debt is not due until 1997 and 2047, a fortunate arrangement. The company owns substantial investments in the Burlington Railroad and in North Western Improvement Company (with large coal, ore and lumber properties), and it also owns 5,000,000 acres of land in Montana, Washington and Idaho—one of the best territories for future development. The company's General Lien 3s, which rank ahead of the huge Refunding issue, are obtainable around 53 to yield about 5.6%—some years ago they sold as high as 95¼. Interest on all bonds is currently being earned over twice, and if the interest on the junior Refunding bonds were omitted, the coverage would be substantially higher.

Atlantic Coast Line earnings were irregular during the 1930's but have grown amazingly in the past few years. Thus fixed charges were earned nearly 4½ times in 1942 compared with 2.75 in the previous year. At the end of 1942 cash exceeded $28,000,000 and total current assets $51,000,000, compared with current liabilities of $35,000,000. Atlantic Coast Line last year redeemed $11,789,000 notes not due until 1945.

The company controls the important Louisville & Nashville, which in turn controls the Nashville, Chattanooga & St. Louis, both of which are doing well. The company's General Mortgage Unified 4½s of 1964 sell currently around 72, yielding 6.25% current income. During 1936 these bonds sold at 100 though net earnings were far smaller than at present. Under continuing favorable market conditions, therefore, they have prospects for further appreciation.

Southern Railway made rapid progress in recent years, reflecting the industrial growth in the south even before the war-time stimulus. Thus the road has definitely graduated from the borderline class. Last year charges were earned over three times. The company had cash substantially equal to current liabilities, and excess current assets amounted to $24,000,000. New equipment purchased in recent years has increased operating efficiency and reduced expenses.

Southern Railway controls the "Queen and Crescent" and Alabama Great Southern—two very profitable roads. The latter, for example, has paid $9 dividends in recent years, while Cincinnati, New Orleans and Texas Pacific paid as high as $35 a share in 1937 and later split the stock 5 for 1, paying $8.00 on the new issue. (*Please turn to page* 269)

Answers to Inquiries

(Continued from page 254)

$9,912,558 as compared with only $4,311,894 on December 31, 1941. This confirms your view that the company is vulnerable to higher taxes. Although the stock is susceptible to fluctuations, in view of the excellent earnings over a period of years and its fine dividend record, we see no reason to disturb this stock at current market price.

General Cable 7% Pfd.

I own 20 shares of General Cable 7% preferred stock. I have felt for some time that I should probably sell this stock and buy in its place a preferred having a better rating. If you agree with me, would you care to recommend a preferred that I could replace with this stock?—M. E. S., Waterbury, Conn.

General Cable Company earned $18.57 on its 7% preferred stock in 1942 as compared with $26.65 in 1941. For the first three months of 1943, it showed $3.10 on the 7% preferred stock as compared with $6.31 for the same period of 1942. This preferred stock has moved up from a low of 71¾ to a high of 88, last 84¼. It paid $7.00 in dividends last year and arrears now amount to $52.50 per share. This stock is callable at 110. The president of the company stated on April 14th that it was still studying the formulation of a plan of recapitalization but so far there has been no definite proposal made.

The company's balance sheet as of December 31, 1942, showed total current assets of $27,235,463 as compared with total current liabilities of $13,722,974 and with net current assets of $13,512,489. The latter item showed an increase of approximately $1,400,000 over December 31, 1941. The company's first mortgage 3½% bonds of 1950 have been reduced from $6,009,000 on December 31, 1941, to $4,420,000 on December 31, 1942. Cash on hand amounted to $5,648,368 as compared with $2,964,773 in the preceding year. In our opinion, we see no valid reason to disturb this preferred stock at this time but if you desire to liquidate same and buy a preferred stock with a better investment rating, we would suggest the following: Crane $5.00 preferred selling at 104, General Cigar $7.00 preferred selling at 141, General Tire and Rubber $6.00 preferred selling around 105. These preferred stocks are all high grade.

Evans Corp.

Evans Products common has been suggested to me as an unusually opportune purchase for profit over the coming months. Is it true that in 1935 and 1936 the stock sold about 200% higher than current levels? Would you recommend it as a good price speculation to acquire now?—E. A., Wilmington, Del.

Evans Products Corporation common shares listed on the New York Stock Exchange seem to present sound potentialities for capital enhancement. For the duration the company will be busy as it has converted many of its facilities to war production beginning in 1941. Ingenuity of the management is a factor in the company's favor. Its freight car loader is helping to get about one-third more into freight cars than was customary before the war. This loader has replaced the "Auto-Loader" which during peace times was a strong income producer for the company. After the war the heavy shipment of automobiles will again bring Evans auto loading and general utility loading devices into prominence. The expected boom in building after World War II comes to a close will also aid Evans in view of its heating and ventilating equipment. Wood products of the company include plywood, veneers, flooring. Evans owns extensive timber holdings in Oregon.

In 1942 earnings were $1.41 per share as compared with $1.81 in 1941—but the trend is again upward for the 1st quarter of 1943 with 46¢ a share reported vs. 27¢ in the first three months of 1942. Gross profit in the 1943 first quarter was nearly double that of the same period of the previous year. The March 31, 1943 balance sheet shows the current assets at $7 millions and current liabilities at $4.8 millions.

Equity per share is $21.11. Yes, this stock sold above 40 in both 1935 and 1936 as compared with current levels of 13⅞. The stock is obviously speculative and has paid no dividend since 1937. It seems to be receiving increased attention marketwise and offers good appreciation possibilities.

American Maracaibo Oil

Please give me a report on American Maracaibo Oil. I have a pretty big block of this that I am holding just for speculation, and wonder if there is any chance of it going higher. I see that they are getting some good wells down there. What you can tell me about this stock will be appreciated.—J. S. Graham, Texas.

American Maracaibo Company. This company through its holdings in the Texas oil fields is a petroleum producing organization, while its subsidiaries hold concessions covering more than 100,000 acres in the Maracaibo basin. It has operated at a loss in each of the years from 1936 to 1941, inclusive. The company has not released its earnings for 1942.

Its funded debt included $1,470,227 of 5% collateral notes which have been extended to November 1, 1949, and aggregated $2,432,000. The latest available balance sheet as of December 31, 1941, showed total current assets of $229,433 as compared with total current liabilities of $206,194 and net current assets of only $23,239. The book value was $1.59 as compared with $1.76 on December 31, 1940. In view of the unimpressive earning record of this company and its small net working capital position, the stock must be classed as very speculative.

Another Look at Stock Yields as Compared With Yields on Bonds

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stocks decline also?

That, of course, depends on whether risk capital is going to get a break in the post-war world. The prevailing opinion at the moment is mixed, but there is a lot more optimism about political trends than there was a few years ago.

Utilities To-day and To-morrow

(*Continued from page* 240)

period, utilities were badly hurt by terrific rise in fuel and metal costs, and in interest rates; in the present war, thus far, taxes have been the main problem.

Summarizing, the utilities have had a good rise in the past year but still haven't recovered a great deal of ground lost since 1929. Operating company stocks may be considered "peace stocks" and are still attractively priced on a long term basis — average price earnings ratio about 12, average yield over 7%. Prices might get a moderate jolt if taxes go up again; this would be a good buying opportunity if it comes.

Advice on holding company securities is more difficult; buyers should watch for special situations where Street interest has been aroused by pending SEC decisions, earnings changes, plans for settlement of dividend arrears, etc.

Because of the big advance which low priced "dogs" in this group have enjoyed, many of them no longer seem attractive, except perhaps as a "long shot" gamble on suspension of Section 11. The safest opportunities exist in the senior securities, so long as the SEC and the Supreme Court continue to favor senior security holders at the expense of junior. A few shares of the higher priced issues are a sounder speculation than a few thousand shares of some "penny" warrant or "dollar" common stock. We comment briefly on some of the individual holding company situations as follows:

American Gas & Electric has relatively few problems. It is one of the stronger systems and while affiliated with Electric Bond and Share, has no problems of capital simplification. Several outlying companies such as Atlantic City and Scranton may have to be disposed of to conform with geographical integration requirements but this should not involve any losses to investors.

American Light & Traction is expected to dissolve some time in 1943-44. The preferred stock will probably be retired by offering in exchange Detroit Edison, plus cash now available, it is surmised. Remaining assets, if distributed to common stockholders, have a value estimated at perhaps 25-50% in excess of the present price. Proposed sale of Madison Gas to the municipality would be beneficial.

American Power & Light has been called some harsh names by the SEC, but the commission hasn't been very helpful, apparently, in ironing out system problems. One of the more important issues is the recapitalization of Florida Power & Light. American still has a large bond issue which must be retired before preferred stockholders can be taken care of. Dividend payments, formerly generous in relation to earnings, have been discontinued.

American Water Works is one of the cleaner holding company pictures. It was one of the first utilities to go to the SEC with a plan (back in 1937) and was rewarded with the commission's approval. While only minor details

of the plan have yet been carried out, the commission has been patient thus far. The system is somewhat over-capitalized, but there are no preferred arrears and the situation seems sound.

Commonwealth & Southern has been playing a game of tag with the SEC. The commission has knocked out one or two of the company's earlier proposals, and will shortly begin hearings on the latest plan, which would give preferred stockholders about four-fifths of system assets. Outlook for the common is dubious due to the tremendous number of shares. A dividend of $3 on the preferred was recently declared, subject to SEC approval. During the regime of Wendell Willkie, system rates were cut drastically, and Commonwealth has one of the lowest rate structures of any large system.

Electric Bond and Share and its sub-holding companies have been sharply criticized by the SEC from time to time. The commission evidently feels that there is undue concentration of power at 2 Rector Street over the $3,000,000,000 assets controlled by the various groups affiliated with EBS. Despite numerous system issues which may eventually have to be compromised with the SEC, EBS preferred stocks seem amply protected by cash and portfolio values; the position of the common is, however, difficult to evaluate.

Middle West has announced a plan of partial dissolution but there are many complications in sub-holding company setups. The top company itself has a simple capitalization. Since "subordination" questions enter the picture, the position of the common remains enigmatic.

National Power & Light is one of the Electric Bond sub-holding companies which has progressed rapidly towards dissolution. Most of the remaining preferred stock will probably be retired shortly, which greatly simplifies the picture for the common stockholders.

Niagara Hudson Power, while it has no geographical problems of integration, is working on a plan for reshuffling and simplifying its sub-holding companies.

This should be announced shortly. The issue over write-offs and preferred dividend payments may be solved by the plan, which, however, may take some time to consummate since several commissions and courts are involved.

North American Company's test of the constitutionality of the "death sentence" imposed by the SEC should be heard by the Supreme Court next Fall. The company is one of the soundest of the holding companies, so far as financial structure is concerned.

United Gas Improvement is the oldest of the big holding company systems and has paid dividends on its common stock since 1885. A plan for partial distribution of assets has been approved by the SEC and will probably be put into effect shortly, unless recent litigation interferes.

Windfalls in Millions

(*Continued from page* 226)

be subject to a tax on capital value, but only to the flow of such income, as received.

The most effective example is that of the United Shoe Machinery Co. Its equity in foreign subsidiaries income was $2,684,000 in the year ended Feb. 29, 1940. Yet of this, after exchange losses, the net equity fell to $340,000. The difference was equivalent to a dollar per share per annum! Their equity of $7,300,000 in Continental Europe an investment was really very productive, but it was unrealizable. Peace would alter the basic investment status of the stock. It would also affect E. G. Budd, whose relation to German investment and income is similar, except that the improvement would cover about an eighth of its American investment only.

But, as a group, however important miscellaneous manufactures may be, American oil enterprise is the one industry that will most benefit by a recovery of these assets. The American oil producer, refiner and distributor is a latecomer in this field, but his efficiency was such that he soon overcame privileged competition. Oil has been identified with the naval, colonial and imperial policy of every European power and the entry of Americans into their preserves was contested by every type of sponsored governmental opposition. Temporary accords were sometimes made with these rivals, but these were more in the nature of truces.

The total American petroleum investment abroad has been about 1.3 billion dollars: actually it can be rated as more than 1.5 billion as it has been valued ultra-conservatively. Of this investment about 450 millions has been lost to the Axis. This was the first prize coveted since it was indispensable to both Germany and Japan, so poor in oil resources, if they were to fight at all.

Electrical Equipments

(*Continued from page* 247)

Telegraph Company, and many others in the communications field make much of their own equipment. Companies listed as making vacuum cleaners, electric refrigerators, household goods such as toasters, etc., are really part of this industry. There are others which do most of their work in other fields, but which also have important production of electrical goods, which would include Allis-Chalmers, Kellogg Switchboard & Supply, Cooper-Bessemer, Eastman Kodak, Union Carbide & Carbon, and Minneapolis-Honeywell Regulator; also the Graybar Electric Company, Inc., which is a large distributor of the products of many electrical goods makers.

The recovery of these assets is more than a stockholders' windfall: Our companies must look increasingly abroad, and so must expand these investments. Hence their recovery is more than a gain in asset value received: it is a springboard for a constant reinvestment and a spiralling upwards of profits. The Standard Oil of New Jersey and Socony-Vacuum, for the European and Japanese dominated areas, and Standard of California in the Dutch East Indies, are most promising in these enemy areas. These distribution centers were being developed systematically in the least motorized parts of the world.

One word of caution. A certain section of our confiscated properties in Axis-dominated territory can be retrieved out of seized funds here. Perhaps a third can be; certainly a fourth. But the bulk of recovery assumes the survival of the private property and contractual system in the affected areas. For colonial regions, even a resurgent nationalism would not be confiscatory.

But in Europe, it is possible that a long period of enigmatic relations will follow the war, wherever overtight authority has broken down. For example, Woolworth, with 82 stores in Germany, has wisely provided $6 millions against their loss, for a Socialist wave might engulf the investment. If the stores are returned, the $6 millions would be a boon to Woolworth stockholders but in the meantime the management's policy seem prudent.

Oil may be nationalized in countries that have begun large undertakings in uneconomic synthetic petroleum so as to safeguard their labor involved therein. But, as the Spanish petroleum monopoly showed, this does not necessarily mean a diminution in American oil company profits.

When every allowance is made for socially uncertain history, it remains true, however that the areas certain to be profitable, plus the funds available here for compensation, between them guarantee the return of most of our investment, even on the worst hypothesis. And that is enough to gratify stockholders and to afford opportunity for others.

What Earnings Dislocations From War Production Shifts?

(*Continued from page* 229)

sideration. Companies producing these goods may thus profit indirectly from contract cancellations although with the exception of the railroad equipment program, the effect on earnings will probably be unimportant.

Returning to our main topic, it should be emphasized once more that past and present production shifts, and those yet to come, are flexible and perhaps only temporary. Our future military strategy will dictate the future course of war production. Thus far, only a minor part of our huge production is actually used in battle; immense quantities of material have been backing up in arsenals, warehouses and supply depots here and abroad. Obviously, production from now on will be geared not only to shipping facilities but to actual

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You cannot keep your capital in a bank, a safe-deposit box or an annuity and be sure that its value will not shrink. If you hold high-grade bonds and preferred stocks, refunding operations may reduce income, while rising price levels, 1943 taxes and inflationary trends cut your buying power.

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replacement demands. These may be vast, once full-scale land warfare is undertaken; although here, too, demand for some categories may prove less than allowed for in original schedules. Whether unnecessary overproduction has occurred is, of course, impossible to say but future production schedules may throw some light on the matter. These most likely will become increasingly uneven, reflecting expansion and contraction as coming requirements may dictate. The importance of these fluctuations to our war industries requires no special emphasis. As far as the holder of equities is concerned, they will in all probability furnish the touchstone of the wisdom of past investment policy.

Watch the World Go By—

(*Continued from page* 235)

ery without important foreign investments and merely by the loan of some foreign talent. But Turkey showed that this was not a consequence of Communism; that it could be just as effectively done by a rising capitalism. Turkey demonstrated, once and for all, that the old plundering Imperialism of the Nineteenth Century (which Hitler seeks to revive) is buried. Turkey has shown that the capital of industrial nations with an excess capacity at home, can be placed at the service of other states, only through cooperation and not by mastery.

* * *

Nothing could swerve them from this contribution. The old experts at the Ottoman Bank could not credit such a revival in a non-economic people. But once achieved, it altered the basis of investment abroad, for good. It has made compulsory the system of "joint ventures" with local capitalists by the lending nation. It will greatly enhance the safety of international investment. In the old days, the native resented foreign capital. The rate of interest was high and he was voiceless in the management of that capital. Nothing reconciled him. The British found Egypt an ignorant and pestilential land of two millions: they built it up to a progressive commonwealth of fifteen millions, but they earned hatred rather than gratitude. The surplus of thirteen million Egyptians, who could not have lived, save for British and French investment, wished nevertheless, that they were not beholden to the London bankers. The Turkish government, on the other hand, while it has repudiated the older Turkish loans, and sought rearrangements of industrial loans made under the Sultanate, has offered its full co-operation with the Western powers in the development of its resources on a co-operative basis. Thus the psychological side of foreign investment is more broadly based, and here again democracy is vindicated, not merely as a sentimental ideal, but as the most practical basis for economic growth. No investment is stronger

than the will to pay. If Turkey has taught us this, the lesson was cheap.

For Turkey believes in capitalism. True, it has been friendly to the Soviet Union. It has accepted Russian credit and technical aid, especially in military and agricultural matters. But it has not been attracted by her system but has sought rather to transform its despotism into a modern capitalist society. As an object lesson to the countries of the Near East, which fluctuate between the lodestone of Russia and the obviously greater physical comforts of American enterprise, Turkey is invaluable for swinging their societies into our orbit. That she has been able to do this consistently, while maintaining friendship with Russia, shows great realism.

* * *

It is upon this realism that we must base our belief that she will elect unity with the Allies. She is an obvious conquest for Germany, since she stands in the way of every German projection. She has nothing to fear from the Allies. The Russians have formally renounced the Tsarist dream of taking Constantinople: the British are using their ablest diplomat, Knatchbull-Huggessen, to persuade Turkey that British oil supremacy in the Mosul fields and in Iran is not a forerunner of imperialism with regard to Turkey.

* * *

Turkey can wait. She has more than doubled her wheat in a decade, added a third to meat and milk, trebled rye, quadrupled oats, doubled corn, trebled potatoes, doubled sugar, and yet added less to tobacco (up only a fifth) because she did not need exports to service her debts. But she cannot wait for basic metals and fuels, which she lacks, in order to build up her national defense. Her industry has grown greatly, true. Coal is now mined modernly: about 2.5 million tons are available per annum. Railways are being extensively built and have reached 5000 miles. Industry has increased five fold since 1931! But it is still small for adequate defenses.

For all these needs, the Germans can offer nothing and would care to offer nothing. For these needs, we must supply Turkey speedily and on a mutual basis. She must, above all, be spared the ravages of inflation. Inflation may, as yet, be a phrase to Americans, but it has been one of the deadliest weapons used by the Germans to undermine internal confidence in weak countries and then enslave them by barter arrangements. The defense of the Turkish pound (about 80 cents) is the first object of Allied policy.

* * *

The entry of Turkey into the war would not only speed victory, but open up an immense area for farm machinery exports. The Turks are anxious to introduce the most modern machinery in farm and workshop. Once they are modernized by American machines, and the suspicious Eastern peoples will see that American co-operation can enrich a country without making it politically subject, the imitation of Turkey by neighboring commonwealths, may become an important factor in our exports of trucks, oil machinery, roadmaking machines (the Turks are concentrating more on these than on railways) and on automobiles, of the small, bumpy, jeep types, ideally adapted to Turkish mountains and economical in use of gas, that can come by direct pipe line from next door oil wells. There is a constructive opportunity for American military and economic action in this crucial country. Its co-operation may be reflected in our daily lives, if it advances the date of peace by many months.

Three Rail Bonds for Good Income Yields

(*Continued from page 259*)

Southern Railway unfortunately has some non-callable bonds with high coupon rates, due in 1956—the "Development and General" 6s and 6½s. The 6s are currently around 97, yielding 6.18%. Some time ago there was a report that the company would make an effort to retire these high coupon issues through an exchange offer, and this would seem a logical possibility. In former years, the bonds sold as high as 120, and they should continue to share in any broad advance in the rail bond market.

Worldwide Struggle for Power

(*Continued from page* 221)

seems to have been the situation in North Africa. That area abuts Spain, the motherland for all South American reactionaries, as against Washington. Yet here, the National Council, with Giraud assenting freely, dismissed Noguès and Peyrouton, who had willingly co-operated with Vichy. The much-touted differences between Giraud and de Gaulle were real, true, but they were not central, in view of the growing imminence of Nazi defeat. As against that background, both conservatives and radicals — all other than Fascists—were able to combine. Neither de Gaulle nor Giraud see eye to eye on anything administrative, juridicial or economic. De Gaulle, a lifelong Royalist, accepts the Republic freely. Giraud, a lifelong conservative, accepts Trades Union collaboration. The radical parties do not ask for ministerial portfolios. They take their rearguard position graciously; that is, no one thinks that any differences are significant as against the need for immediate unity in the face of possible victory.

Spain, once the bogey opposite weak French North Africa, hastens to demobilize two classes of her army, to cast her net in the direction of the Allies and thus shows evidence of good faith and of an absence of aggressive intentions. The interlacing of the Tunis victory, of the North African realignment of forces, of Spanish weakening and the Argentine rebellion is evident.

It must be clear now even to the severest critics that our campaign in Africa was a stroke of genius, which broke the back of Germany's carefully planned schemes.

The Germans clearly are now jockeying for the best possible deal from the Allies and they too may soon surprise us with a realignment of forces, exactly similar to that prevailing elsewhere. The industrialist in the Ruhr does not wish confiscation: he prefers to pay tribute. The Junker in the East knows that Russian vengeance will not only take his life, but lead to social disorders that may end landed property forever in Prussia. Anything he can save from his bloody gamble, however modest, will soon attract him. From seeking the domination of the world, the Germans may settle for mere survival. That is why her adherents are deserting her. As soon as the satellites of Germany sense that she is out to make a deal, however humiliating, with the Western powers, they will try to outdistance her. The jumble of economic interests in Hungary, Roumania and Bulgaria that favors German collaboration can as easily go in reverse as they have in the Argentine and in North Africa. Where can peace come from soon? ask the pessimists. From a realignment of the same forces that make for war, as the struggle for power shifts their position, is the competent answer.

In our own country, the ever-threatening and ever-receding coal strike is another index of the forces that are opposed to the President and who wish to blunt his triumph in foreign policy. They broke the heart of Woodrow Wilson and they gloat at the thought of repeating the performance. The President has been sustained, in his foreign policy, by the most forward and capable men of both parties, independent of party considerations. Yet reactionary forces, using Lewis as their most brazen tool, try to sap the President's war prestige in this indirect fashion.

These forces know that they have no time. Germany is weakening. They must move at once or be forever discredited. They decide to use the autocratic power of John L. Lewis over the coal miners as a means to gain their ends. For no one can pretend that Lewis is alone. There is an ominous silence in certain sections of that press who are blinded by their hatred of Roosevelt; there is merely perfunctory criticism of Lewis' vicious policy, and sometimes no criticism at all. Lewis acts as though he has powerful

allies. His effrontery as against the whole nation would be unthinkable if he felt shaky, if he knew that he was alone. The groups that are convergent with Lewis' policy, sense that Labor has been the mass support of the Roosevelt administration. Hence they seek to put the President in the position of taking harsh action against labor, of curtailing labor's right to strike and of discrediting unionism. In the midst of this war crisis they are thinking of politics and believe that once he loses labor's support and has no adequate mass following that they will have scored in the struggle for power.

However, they have calculated badly because labor recognizes the part that Lewis is playing and it will not follow his lead politically. And Lewis is as ambitious as Hitler was and ready to make as many promises to his backers who would suffer the same fate as those who raised Hitler to the German Chancellorship.

The susceptibility of these factions backing Lewis is alienating sound thinking people everywhere. Conservatives opposed to the New Deal, sound finance men to whom the fiscal policy of the President is distasteful, critics of his over-generous labor policy will back up the President for larger national ends as they have in Algiers, Buenos Aires and in Britain.

Labor as a whole will back the President towards the winning of this war. It is thoroughly disillusioned and set against the very forces which have permitted the unions to be used as a weapon for gangsters, racketeers and reactionaries. In this struggle for power, hastened by the declining prowess of the enemy, the very realignment of groups will cause them to assess each other's needs better in order to promote national unity that we may have greater assurance of economic stability and prosperity when peace has been won.

What's New?

(*Continued from page* 250)

of mould that can live off farm products. Its mass production problem has yet to be licked, but a score of leading pharmaceutical companies are working hard on it under the sponsorship of the Government. Curative results obtained in treatment of bacterial diseases have been phenomenal. The drug gets every result obtained by sulpha drugs, and several that sulpha drugs can't get. Besides, it cures in about half the time of the sulpha drugs and, unlike the latter, is reported to be devoid of toxic reactions.

Profit and Income

(*Continued from page* 249)

inflation. Estimates of the current market value of the company's crude oil reserves run all the way from 17 cents to 24 cents a barrel, depending on how the analyst appraises the non-producing assets. Some of the other good oils recently have been appraised at around 25 cents a barrel for crude oil in the ground. Of course it is hard to compare an integrated company like Gulf Oil with a producing organization such as Amerada, Ohio Oil or Continental Oil.

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